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GENERAL INSTRUCTIONS
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1000 GENERAL INSTRUCTIONS

1010 THE ACCOUNTING MANUAL FOR FEDERAL CREDIT UNIONS

1010.1 PURPOSE AND USE AS A PRESCRIBED SYSTEM

This manual sets forth comprehensive procedures for the maintenance of accounting records by federal credit unions. It also contains accounting guidelines and requirements for specialized problems and services, such as branch office accounting, membership in the Central Liquidity Facility, investments in credit union service organizations, share drafts, credit cards, etc. In addition, the manual throughout describes some techniques which can be used by management in making a better analysis of the credit union's financial condition and in improving the planning process.

This Manual is not incorporated by reference in the NCUA Rules & Regulations (R&Rs). However, adherence to the accounting principles and standards in Section 2000 of this Manual will ensure compliance with the full and fair disclosure requirements of Section 702.3 of the R&Rs which:

- Defines the required level of disclosure needed on financial statements;
- Requires federal credit unions to select an accounting basis that is described in this Manual; and
- Instructs credit unions to prepare financial statements in the manner prescribed in this Manual or its equivalent financial statements.

The remainder of the Manual is intended to provide guidelines to credit union officials and employees with information on recommended procedures and practices.

For the most part, the manual adheres to generally accepted accounting principles (GAAP) except for certain intentional regulatory accounting practices (RAP) which differ from GAAP.

The manual may be adopted by federally insured, state chartered credit unions at the option of the credit unions and their state supervisor.

1010.2 LOOSE-LEAF SYSTEM - PERIODIC REVISIONS

The manual is designed as a loose-leaf system to facilitate updating. When revisions become necessary, revised pages will be issued, accompanied by appropriate explanations and instructions for updating your manual.

1020 CREDIT UNION OPERATIONS GOVERNED BY LAWS, BYLAWS AND REGULATIONS

Federal credit unions are corporations organized and operated under the provisions of the Federal Credit Union Act (Act). They are corporations with powers limited to those granted by their charter and the Act. They are governed by their bylaws and the regulations issued by the National Credit Union Administration. All directors, officers, and committee members should have a general knowledge of these laws, bylaws, and regulations, and a specific knowledge of the duties required of the particular office held.

1030 ACCURATE AND CURRENT RECORDS ESSENTIAL

1030.1 PURPOSE OF RECORDS

The transactions of the credit union are compiled in its records which serve as a source of information needed by the directors to properly manage the credit union. The accounting records also serve as the basis for reports to the members and interested third parties. Therefore, it is essential that the records be accurate, current, and that they show the true financial condition of the credit union. Prompt preparation of reports will aid the credit union in achieving its objectives and fulfilling the purposes for which it was formed.

1030.2 BASIC ACCOUNTING RECORDS

1030.2.1 DOUBLE-ENTRY SYSTEM

Bookkeeping may be defined as the systematic recording of the financial transactions of a business in a suitable form. To accomplish this, a well-defined system of accounts is necessary.

All federal credit unions should use a double-entry accounting system. In this system each transaction results in at least two entries: a debit (or entry on the left side of an account ledger) and a credit (or entry on the right side of an account ledger). If the transaction requires several debits and credits, the total of the debits and the total of the credits must be the same. In other words, for every debit entry there must be an offsetting credit entry and vice versa. By following this rule and determining that the total debits equal the total credits, the records can be kept in balance.

1030.2.2 TYPES OF ACCOUNTS

The "Asset Accounts" record what the credit union owns. These include cash, loans, investments, etc. These accounts, as well as the expense accounts, normally have debit balances.

The “Liability Accounts” record what the credit union owes and the “Equity Accounts” reflect the members ownership interests. Together these accounts include notes payable, members’ shares, undivided earnings and reserves. The “Liability Accounts” and “Equity Accounts” as well as the income accounts normally have credit balances.

A brief general rule for debits and credits is: Debit the increase of an asset, the reduction of a liability or equity account, or the payment of an expense; credit the reduction of an asset, increase of a liability or equity account or, receipt of income.

1030.2.3 RECORDS OF ORIGINAL ENTRY AND RECORD OF FINAL ENTRY

A bookkeeping system can be broken down into two distinct parts: Records of Original Entry and Records of Final Entry.

1030.2.3.1 THE RECORDS OF ORIGINAL ENTRY

The Records of Original Entry are diaries of the transactions as they occur. The Journal and Cash Record is the main record used for this purpose. Each day’s cash receipts, disbursements and other transactions are entered in the Journal and Cash Record in chronological sequence. Thus, a running history of each day’s transactions are kept and may be summarized as needed.

At the end of a given period, usually the month end, the total of all transactions pertaining to each account can be obtained by totaling the debit and credit columns of the Journal and Cash Record. The accuracy of the entries can be proved in part by balancing the debit columns against the credit columns.

1030.2.3.2 THE RECORD OF FINAL ENTRY

The Record of Final Entry is the General Ledger. This record serves as a means of summarizing the entries in a form that will enable the bookkeeper to prepare reports on the results of operations to date. Entries in the General Ledger consist of posting (simply transferring) the debits and credits (either individually or in total at the end of the month) for each account in the Journal and Cash Record to the corresponding account in the General Ledger and computing the net balance for each account. The result obtained shows the current balances of the credit union’s accounts and the results of operations for the period.

Sometimes, when a General Ledger account summarizes a large number of transactions, it is necessary to provide detailed information about this account with a record known as a Subsidiary Ledger. The Individual Share and Loan Ledgers are examples of subsidiary records which show the detailed share and loan transactions with each member. The Share and Loan accounts in the General Ledger reflect the total transactions with all members. These General Ledger accounts are called Control Accounts since they act as a control or check over the numerous postings to the individual or subsidiary ledgers. Subsidiary records are balanced with related control accounts on a monthly basis and the reconciliation, or other proof of balancing, is retained.

1040 BRIEF OUTLINE OF THE PRESCRIBED ACCOUNTING SYSTEM

The accounting records of federal credit unions should be maintained on either of two accounting bases: namely, the modified cash basis or the accrual basis. The accrual basis of accounting is recommended for credit unions with assets totaling \$2 million or more at the end of the accounting period.

1040.1 MODIFIED CASH BASIS

Generally under a strictly cash basis of accounting, income is recorded and accounted for when actually collected and expenses are accounted for when actually paid. Under the modified cash basis prescribed herein, the accounting is based on the actual receipts and disbursements of the credit union except that provisions should be made to reflect:

- Liabilities which are not promptly paid when due,
- Dividends and interest refunds applicable to the accounting period but not yet paid,
- Deferred income or expenses applicable to future periods,
- Estimated losses to be sustained on loans outstanding and other risk assets, and
- Estimated unrealized losses associated with mutual fund and common trust investments, and
- Depreciation on fixed assets.

The foregoing exceptions to maintenance of accounting records on a strictly cash basis are designed to recognize in the accounts certain significant financial transactions not involving the concurrent receipt or disbursement of cash and to reflect their effect in financial reports prepared from the accounts. In unusual circumstances, there may be other significant non-cash financial transactions that should be recorded. Therefore, the above list is not all inclusive.

Credit unions for which adoption of the accrual basis of accounting is not required or practicable should use the modified cash basis of accounting.

1040.2 ACCRUAL BASIS

The accrual basis of accounting refers to that method under which liabilities and expenses are recorded when incurred, whether or not paid, and income is recorded when earned, whether or not received. It is intended that credit union accounting be maintained on the accrual basis by all credit unions for which such basis is deemed practicable by them.

Generally accepted accounting principles require the accrual basis of accounting.

1040.3 THE BASIC CREDIT UNION ACCOUNTING SYSTEM DESCRIBED

For credit unions following either the accrual basis or the modified cash basis of accounting, the majority of entries originate with the receipt or disbursement of cash. Other entries are relatively few in number

and consist generally of adjustments or transfers between accounts, establishment and maintenance of an allowance for loan losses, write-offs of bad loans, and recording depreciation of tangible fixed assets. In addition, credit unions following the accrual basis of accounting should make entries to record accrued income and expenses.

The principal bookkeeping records consist of the Journal and Cash Record which is the RECORD OF ORIGINAL ENTRY, and the General Ledger which is the RECORD OF FINAL ENTRY. In addition, the Cash Received Voucher or its equivalent and the Journal Voucher or its equivalent serve as memorandum records of the original transactions and the sources of entries in the Journal and Cash Record.

SECTION 2000

**ACCOUNTING PRINCIPLES AND STANDARDS FOR
FEDERAL CREDIT UNIONS**

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2000 ACCOUNTING PRINCIPLES AND STANDARDS FOR FEDERAL CREDIT UNIONS

2010 PURPOSE AND SCOPE

Accounting by federal credit unions serves many internal and external purposes. Comprehensive and accurate financial information is essential so that credit union management can make sound decisions concerning the operation of the credit union. Management must also account for its actions to members, creditors, the National Credit Union Administration in its supervisory capacity, and others having valid financial interests.

Financial information provided to management is summarized in credit union financial statements which are intended to present fairly the financial position of the credit union at a given date, and the results of its operations for a given accounting period. The financial information so presented must be supported by accounting records maintained in conformance with principles and standards designed to provide full and fair disclosure of all material information relating to the credit union's operations.

The principles and standards of federal credit unions have been designed to follow practices in use by other financial and lending institutions and are based on generally accepted accounting principles as developed by the accounting profession. Use of these principles by credit unions for their accounting and financial reporting will provide for full and fair disclosure of financial information.

Many of the principles and standards require the exercise of judgment by credit union officials where optional courses of action are available or where estimates are required for application of a particular principle. Also, direction is necessary under the doctrine of materiality (See Section 2020.6) in order to evaluate the need for applying a particular principle to specific transactions or situations. Subject to these qualifications, the principles and standards in this section of the Manual must be followed to comply with the full and fair requirements of Section 702.3 of the Rules and Regulations.

2020 BASIC CONCEPTS AND GENERAL PRINCIPLES

The basic concepts and general principles fundamental to the detailed accounting principles and standards for federal credit unions are listed and described below.

2020.1 SEPARATE ENTERPRISE

Each credit union is a separate corporate enterprise requiring the maintenance of comprehensive accounting records and financial reporting practices to provide meaningful information to members, officers, directors, the supervisory committee, the National Credit Union Administration (NCUA), and interested third parties.

2020.2 GOING CONCERN CONCEPT

Each credit union should normally maintain its accounts as a “going concern” on the basis that its operations will be continued indefinitely. Therefore, assets and liabilities should represent the value to the credit union as a “going concern” and should not be based on liquidation values.

Whenever unusual circumstances indicate a limited life for a credit union, e.g., if the credit union liquidates, the “going concern” concept will no longer apply. As a result, appropriate adjustments should be made to realistically state assets and liabilities and recognize appropriate revenues and expenses. These adjustments could include, for example, a reevaluation of the loan portfolio to recognize possible discounts on sales of loans, an evaluation of the realizable value of fixed assets in liquidation, possible adjustments required in the carrying value of deferred charges and deferred credits, etc.

2020.3 MONETARY BASIS FOR ACCOUNTING

Accounts of each credit union should be stated in terms of the dollar amounts involved at the time transactions occur. The recording of each transaction in terms of dollar units provides the best feasible indicator of its relative impact on the overall operations of the credit union. It also permits identification of the amount of assets, liabilities, income or expenses represented by the transaction.

2020.4 CONSISTENCY IN ACCOUNTING FROM PERIOD TO PERIOD

Consistent accounting practices should be followed by each credit union from one accounting period to the next. Should a material change in accounting treatment occur, the facts must be disclosed on credit union financial statements, including the dollar effect upon the balance sheet and the changes in net income for the period. For example, if a credit union converts to the accrual system of accounting, it should make a complete conversion at one time and report the conversion on the current period financial statements. See Section 4030.2.9 for further guidance.

2020.5 TIMELY RECOGNITION IN ACCOUNTING RECORDS

Accounting transactions should be recorded on a timely basis so that all material information applicable to each accounting period will be shown in the records. To properly recognize in accounting records and financial reports the reasonable value of assets, liabilities, and shareholders' equity, each credit union should make provision for estimated loss to be sustained in the collection or conversion of loans and other assets by charges against current expenses. Estimated amounts should be used in accruing income or expenses if actual amounts are not known and cannot be readily determined. Differences between the actual and estimated amounts should be absorbed in the operations of the subsequent accounting period.

2020.6 MATERIALITY

Material facts relating to credit union financial activity must be recognized in the accounts of a credit union and reported on its financial statements. A statement, fact, or item is material if, giving full consideration to the surrounding circumstances as they exist at the time, it is of such a nature that its

disclosure, or the method of treating it, would be likely to influence or to “make a difference” in the judgment and conduct of a reasonable person. The accumulation of many small items, each of which in itself would not be “material”, would be “material” if the overall effect would tend to influence the judgment and conduct of a reasonable person.

2020.7 CONSERVATIVE ACCOUNTING

Each credit union should maintain its accounting records on a conservative basis. It should make reasonable provisions in the accounts for potential losses on assets and for the settlement of liabilities. It should not materially overstate nor understate its assets, liabilities, revenues or expenses.

2020.8 INTERNAL CONTROL

Each credit union should adopt appropriate measures of internal control to improve the dependability of its accounting records. These measures must include:

- An organization plan to provide, to the extent feasible, segregations of duties so that different employees will handle the operational custodial and accounting functions.
- A system of authorization and recording procedures adequate to provide reasonable accounting control over assets, liabilities, income and expenses.
- Employment of personnel capable of performing duties and responsibilities.
- Effective and timely audits of credit union records and accounts by its supervisory committee including verification of members’ accounts, with assistance provided, where needed, by an independent auditing firm.

2020.9 COMPLETE RECORDING OF INCOME AND EXPENSES

Income, expenses, gains and losses should be recorded in income and expense accounts and shown on the Statement of Income prepared for the accounting period. Income and expense accounts should include actual and estimated loan and other asset losses.

2020.10 ACCOUNTING BASIS

The accrual basis of accounting provides the most complete and informative record of the financial activities of credit unions. The accrual basis refers to that method of accounting under which liabilities and expenses are recorded when incurred, whether or not paid, and income is recorded when earned, whether or not received. It is recognized, however, that a requirement that all credit unions adopt the full accrual basis of accounting would work a hardship on many small credit unions. Therefore, the accounting basis to be used shall be determined by each credit union in accordance with the following guidelines:

- The adoption of the accrual basis of accounting is *recommended* for credit unions with assets totaling \$2 million or more at the end of the accounting period.
- The accrual basis of accounting should be used by all credit unions where it is deemed practicable by the board of directors.
- Where the accrual basis is followed, a cash basis of accounting and reporting may be applied to particular accounts where the results would be only insignificantly different from the accrual basis. For this purpose “insignificantly” refers to differences which would not be considered important for a proper evaluation of condition or operations of the credit union.
- Credit unions for which adoption of the accrual basis is not required or not practicable should use a modified cash basis of accounting. Under the modified cash basis, the accounting will be based upon the cash receipt and disbursement transactions of the credit union except that provision should be made to reflect: (a) liabilities which are not paid promptly when due; (b) dividends and interest refunds applicable to the accounting period but not yet paid; (c) deferred credits and charges applicable to future periods; (d) estimated losses to be sustained on loans outstanding and other risk assets; and (e) depreciation of fixed assets.

2020.11 ACCOUNTING AND DIVIDEND PERIODS

Credit union accounting periods may be monthly, quarterly, semiannually or annually depending on the period selected by the credit union to close its books. Each credit union must close its books at least annually at the end of the fiscal year. It is *recommended* that federal credit unions close their books at the end of each regular share account dividend period unless dividends are paid more frequently than monthly. Provision must be made for statutory reserve transfers and adjustments to meet valuation allowance requirements when a credit union elects not to close the books at the end of any dividend period except where such dividend period is more frequent than monthly. Interim financial statements should be prepared on a proforma basis reflecting a reserve position that would be achieved if the books had been closed.

2020.12 FISCAL YEAR

The fiscal year of all federal credit unions should begin January 1 and end on December 31.

2030 ACCOUNTING PROFESSION PRONOUNCEMENTS

Within the accounting principles authorized by the NCUA for use by credit unions, various alternatives are provided for adoption at the option of any credit union for certain types of transactions. These alternatives are designed to provide the flexibility required for meaningful accounting under a variety of circumstances that may be encountered by credit unions of different size and scope of operations. *Absolute uniformity is not required so long as each credit union conforms its accounting to authorized generally accepted accounting principles.* Consistency in accounting from period to period and disclosure of material accounting changes is necessary (See Section 2020.4).

The American Institute of Certified Public Accountants (AICPA) and the Financial Accounting Standards Board (FASB) and their committees establish generally accepted accounting principles (GAAP), accounting guidelines, and preferred accounting treatment for various activities. Credit unions should refer to such accounting profession pronouncements for guidance where a particular activity is not addressed by this manual or other NCUA publications. Credit unions may adopt such accounting profession pronouncements provided they are not inconsistent with the principles, standards, and procedures set forth herein or statutory or regulatory requirements.

Activities which are unique to credit unions and have not been addressed in existing accounting industry literature or in NCUA publications should be referred to an independent accountant for review and comment. Copies of the correspondence should be maintained in the credit union's files.

2040 PRINCIPLES AFFECTING THE RECORDING OF ASSETS

2040.1 UNDER THE MODIFIED CASH BASIS OF ACCOUNTING

The principles and standards of accounting relating to assets of federal credit unions following the modified cash basis of accounting are set forth below.

2040.1.1 ASSETS-GENERAL BASIS FOR RECORDING

Assets should be recorded normally at their cost to the credit union.

2040.1.2 CASH-UNRESTRICTED OR RESTRICTED

Any cash on deposit or on hand, which is *restricted* as to its use, should be recorded in separate accounts from other cash accounts of the credit union. Each category of *restricted* cash other than change funds or petty cash should be shown separately on financial reports.

2040.1.3 LOANS

Loans outstanding and other receivables due the credit union should be recorded to reflect their unpaid balances. Appropriate valuation allowance accounts should be maintained to cover estimated losses. Allowances may include amounts not allocated to or identified with specific loans. Credit unions adopting the accrual basis of accounting should amortize net loan origination fees and costs over the life of the related loans using the interest method. Credit unions adopting the modified cash basis of accounting should, at a minimum, amortize origination fees over 10 years or the life of the loan, whichever period is shorter.

2040.1.4 INVESTMENTS

Investments and related transactions should be recorded based on the principles and standards described below. When securities are acquired, each credit union shall assess its intent and ability with regard to its securities holdings. It then must assign its debt and equity securities to the appropriate measurement category: *trading*, *held-to-maturity*, or *available-for-sale*. Not less frequently than the end of each dividend period (i.e., monthly, quarterly, semiannually, or annually), the appropriateness of the classifications, and the reasonableness and accuracy of the related fair value measurement (*trading* and *available-for-sale*), shall be assessed.

Reporting requirements shall be as follows:

- Debt and equity securities that are bought and held principally for the purpose of selling them in the near term shall be classified as *trading securities* and reported at fair value through the income statement.
- Debt securities (not equity) that the enterprise has the positive intent and ability to hold to maturity shall be classified as *securities held-to-maturity* and reported at amortized cost, i.e., cost adjusted for the amortization of premiums or the accretion of discounts.
- Debt and equity securities not classified as either *trading* or *held-to-maturity* securities all be classified as *securities available-for-sale* and reported at fair value through a separate component of equity in the balance sheet, *Accumulated Unrealized Gains/Losses on Available-for-sale Securities*.
- Premiums paid for securities should be amortized using the interest method by periodic entries offsetting income on investments over the period from acquisition to maturity. If the securities were issued with a call date falling prior to maturity, the premium should be amortized to the earliest call date. Amortization should be recorded on a time basis that corresponds to the recording of the related income. If interest on investments is recorded at the time the income is received by cash payments, the amortization of the premium should be recorded similarly.
- Discounts on securities should be recorded using the interest method as income over the period from acquisition to maturity by periodic entries augmenting income from investments. Entries to record the write-off of discounts should be coordinated with the recording of the related income.
- Income earned on investments should be recorded as income when received, except that income automatically reinvested in common trust investments, marketable equity securities, bank passbook

accounts, savings and loan shares, etc., should be recorded as an increase in the carrying value of the investments when notice of income credits are received by the credit union; the offsetting credit should be to income from investments.

- Accrued interest purchased on bonds and securities should be recorded as an asset and cleared by an offset against interest received when the first interest payment on the related securities is received.

Refer to Section 6060 of this manual for more detailed information regarding investments.

2040.1.5 FIXED ASSETS

Fixed assets should be recorded in accordance with the following principles:

- Acquisitions of tangible fixed assets should be recorded at cost. The cost of acquisition is the net purchase price of the asset plus all incidental costs necessary to put the asset in condition for use, such as freight, installation cost, etc. If property is exchanged for the acquired asset, then cost is recorded as the amount of cash paid plus the recorded amount of the asset surrendered. No gain, if any, should be recognized on the transaction; the entire indicated loss on the exchange, if any, should be recognized. If property is acquired through exchange without cost, the fair market value should be used as the “cost.”
- Each credit union’s board of directors should establish a dollar value limit (e.g., \$100) under which tangible property units purchased will be recorded as current expense even though the items may be expected to be serviceable for more than 1 year.
- Cost of land (and land improvements) should be shown separately from the cost of the buildings and other improvements. In combination purchases, the cost of land should be recorded based on a fair market value estimate.
- Whenever depreciation is computed on a unit basis, retirements of fixed assets should be recorded by eliminating the amount of the asset together with any related depreciation allowance. Any material difference between the net amount realized from disposition and the net carrying value of the depreciable assets should be recorded as an “other gain or loss” and shown in financial reports separate from regular operating income or expense.
- If a credit union computes depreciation on a composite-life basis, the cost of units retired should be credited to the appropriate fixed asset account; the same amount less salvage value should be charged to the allowance for depreciation account. No gain or loss should be recognized in the accounts since the composite rate contemplates that items in the group will be retired both before and after expiration of the estimated average life. When retirements are abnormal or unusual, however, gains or losses should be recorded in the accounts, similar to the unit basis since composite rates do not anticipate such retirements.

2040.1.6 DEPRECIATION

Depreciation of credit union tangible fixed assets is the charge allocated to an accounting period under a system which aims to distribute the cost or other basic value of the fixed assets less salvage (if any) over the estimated useful life of the unit (which may be a group of assets) in a systematic and rational manner. Depreciation should be recorded in each accounting period by charges to expense and credits to the appropriate valuation allowance accounts under either of two bases as set forth below:

- The unit depreciation basis may be used for recording depreciation over the estimated useful lives of the assets based on the cost of the assets less estimated salvage value. However, for assets having a remaining use. full value, the depreciation shall not exceed the carrying value of the asset less: (1) the salvage value, or (2) \$1.00. Under this method a depreciation record should be maintained for each item of depreciable fixed assets.
- For the purpose of computing the periodic amounts of the depreciation to be charged, credit unions may use either the straight-line, declining balance, or the sum of years' digits methods.
- Under the composite basis, depreciation should be recorded continuously for such assets based on established composite rates. The accumulated depreciation allowance account under the composite-life method of depreciation, however, cannot exceed the related fixed assets account.

2040.1.7 PREPAID EXPENSES AND DEFERRED CHARGES

Costs affecting subsequent accounting periods, if material in amount, should be recorded as prepaid expenses and amortized over the accounting periods to which applicable (e.g., insurance premiums, stationery and supplies, advances for accounting services, annual share insurance premium, National Credit Union Administration operating fee, organization costs, etc.). Deferred organization costs should be amortized over a period not extending beyond the year in which incurred and the 2 subsequent fiscal years.

2040.1.8 ASSETS PLEDGED

The nature and extent of credit union assets pledged to secure debts should be disclosed in the financial statements.

2040.2 UNDER THE ACCRUAL BASIS OF ACCOUNTING

The principles and standards of accounting applicable to the modified cash basis of accounting apply under the accrual basis of accounting except as follows. Also note, when income and expense items are to be accrued, the accruals should be recorded monthly, or at least at the end of each regular share account dividend period.

2040.2.1 INCOME ON LOANS

Interest earned each month or dividend period on loans outstanding (where material) should be recorded as an asset and credited to income. Interest should not be accrued on loans 3 months or more delinquent.

2040.2.2 INCOME ON INVESTMENTS

Income on investments should be recorded as income based on the time the investments are held for which the dividend income has not been received. (See Section 2070.2.2)

2040.2.3 AMORTIZATION OF PREMIUM OR DISCOUNT ON SECURITIES PURCHASED

If interest on investments is accrued (monthly, quarterly, semiannually or annually), the amortization of premium should be recorded based on the same time periods. Likewise, discount on securities purchased should be accreted by periodic entries augmenting accrued income from investments. Entries to record the write-off of the discount should be recorded within the same periods of time.

2050 PRINCIPLES AFFECTING THE RECORDING OF LIABILITIES

2050.1 UNDER THE MODIFIED CASH BASIS OF ACCOUNTING

The principles and standards of accounting for liabilities of federal credit unions following the modified cash basis of accounting are set forth below.

2050.1.1 LIABILITIES-GENERAL BASIS FOR RECORDING

Known liabilities should be recorded at their actual amounts or, if the actual amounts are not known, they should be recorded based on reasonably accurate estimates.

2050.1.2 ACCOUNTS PAYABLE

All bills due and remaining unpaid should be recorded as accounts payable if not paid before the end of the period.

2050.1.3 NOTES PAYABLE

Funds borrowed should be recorded to show at all times the outstanding amount payable on the notes. Notes payable should include balances of senior liens on assets repossessed or foreclosed where the credit union acquires title subject to the prior liens.

2050.1.4 ACCRUED INTEREST PAYABLE

Under the Modified Cash basis of accounting, recording of accruals of interest due on notes payable will not be required. If accrued interest is recorded the offsetting charge should be to the expense account-Interest on Borrowed Money.

2050.1.5 DIVIDENDS PAYABLE

Upon declaration of a dividend, the actual or estimated amount payable should be recorded as a liability unless the dividend is paid or credited to share accounts in the last month of the dividend period. The offsetting charge is to Dividend Expense or to Accrued Dividends Payable.

2050.1.6 INTEREST REFUND PAYABLE

Upon declaration of an interest refund, the actual or estimated amount payable should be recorded as a liability unless the refund is paid or credited to share accounts in the last month of the dividend period. The offsetting charge is to Acct. No. 119 - Interest Refunds. Credit unions may record estimated interest refunds monthly.

2050.1.7 ACCRUED EXPENSES

Except for dividends, credit unions following the modified cash basis of accounting are not required to accrue expenses to allocate the costs to the periods benefited. These expenses should be recorded as cash disbursements when made. However, when expenses are not paid promptly when due, those expenses must be accrued.

2050.1.7.1 ACCRUED DIVIDENDS

Whenever a dividend rate on any type of account is specified in advance or contracted for, dividend expense for those accounts must be accrued monthly or at the end of the shortest dividend period offered by the credit union on any type of account. The only exception to this rule is that accruals never have to be made more frequently than monthly.

Dividends in any dividend period cannot exceed:

- a) Undivided earnings available at the beginning of the period;
- b) Plus-net income (or less net loss) before dividends for the current dividend period;
- c) Less-amount of required transfer to the regular reserve based upon gross income;
- d) Plus-the net amount of provision for losses on loans charged to expense during the current dividend period to the extent that such charge can be absorbed by the Regular Reserve.

or

Items a, b, and c above:

- d) Less-the net amount of provision of losses on loans credited to expense in the current dividend period;
- e) Less-the amount of any provision for losses on loans charged to expense during the current period which cannot be absorbed by the Regular Reserve.

2050.1.8 DEFERRED CREDITS

Deferred credits should be recorded separately and amortized by credits to income during subsequent periods as the income is earned; e.g., discounts on FHA loans, discount on loans purchased from other credit unions, etc. The amounts of discounts on loans recorded as deferred credits should be shown as deductions from the related asset accounts for presentation in financial reports.

2050.1.9 LIABILITIES SECURED BY LIENS

The nature and extent to which particular liabilities are covered by a lien on assets should be shown on the financial statements.

2050.1.10 CONTINGENT LIABILITIES

A contingency is defined as an existing condition, situation or set of circumstances that may or may not result in a gain or loss to the credit union. The amount of the resulting gain or loss will be determined by future event(s). The amount of a contingent loss should be accrued by charges to expense if:

- Prior to the issuance of the financial statements, it is probable that a loss will actually occur because an asset had been impaired or a liability had been incurred at the date of the financial statements; and
- A reasonable estimate of the resulting loss can be made.

NOTE: The amount of the contingent loss to be accrued should be estimated realistically on the basis of all information available. If some amount within a range appears at the time to be a better estimate than any other amount within the range, that amount shall be accrued. If no amount within the range is a better estimate than any other amount, however, the minimum amount in the range shall be accrued.

If both of the above conditions are not met but a reasonable possibility exists that a loss may have been incurred, or if the estimated amount is not material, a contingent loss need not be accrued but disclosed as a note to the financial statements.

Examples of contingent liabilities are: pending or threatened litigation, selling loans with recourse, guarantees of the indebtedness of others, and agreements to repurchase assets that have been sold. See Section 6030.5 of this manual for a discussion on selling loans with recourse.

2050.2 UNDER THE ACCRUAL BASIS OF ACCOUNTING

The principles and standards applicable to the modified cash basis of accounting apply under accrual basis of accounting, except as follows.

2050.2.1 ACCRUED INTEREST PAYABLE

Credit unions should record in each month or dividend period the accrued interest payable on notes and mortgages with an offsetting charge to interest expense.

2050.2.2 ACCRUED EXPENSES

Credit unions should accrue expenses to allocate costs to the periods benefited; e.g., dividends, salaries, etc. The accruals normally should be recorded each month or dividend period so that all significant expenses will be shown on financial reports provided to directors and members.

2060 PRINCIPLES AFFECTING EQUITY

The principles and standards of accounting relating to credit union equity are set forth below.

2060.1 NET INCOME

The net income or losses for the current accounting period should represent the difference between all income and expense items.

2060.2 UNDIVIDED EARNINGS

At the close of each accounting period, the income and expense accounts should be closed into the Net Income (loss) account, after which the balance of the Net Income (Loss) account should be transferred to Undivided Earnings. The following transfers should then be made from Undivided Earnings:

- Transfer to the credit of the Regular Reserve the applicable percentage of gross income for the accounting period.
- Transfer to the debit (or credit) of the Regular Reserve an amount equal to the net Provision for Loan Losses expense (or expense credit) representing additions to (or reductions of) the Allowance for Loan Losses account during the accounting period.

- For example, assume that \$500 has been added to the Allowance for Loan Losses through a charge to Account No. 300, "Provision for Loan Losses," during the accounting period. In this case, the \$500 should be debited to Regular Reserve and credited to Undivided Earnings. Conversely, assume that the Allowance for Loan Losses had been decreased by \$500 through a credit to Account No. 300 during the accounting period. In this case, the \$500 should be debited to Undivided Earnings and credited to Regular Reserve.

Undivided earnings should be charged or credited with amounts required to establish or adjust other reserve accounts, including the reserve for loss contingencies or the special reserve for losses established when so ordered by the NCUA Board. Other direct charges or credits should be made to undivided earnings only for a correction of an error for material amounts which represent adjustments affecting prior accounting periods. Material errors in such financial statements could include arithmetic mistakes, the misuse or deletions of information, mistakes in the applications of accounting principles or procedures, and improper interpretations of the accounting aspects of major transactions. Correction of an error would include a change from an unacceptable accounting principle to a generally accepted one. Correction of an error should result in the restatement of the prior year's financial statements to disclose the correction of the error.

Treatment as prior-year adjustments should not be applied to the normal recurring corrections and adjustments which are the natural result of the use of estimates inherent in the accounting process; for example, changes in estimated losses on loans, accumulated depreciation on assets disposed of, estimated dividends, etc. These changes are properly recorded as transactions affecting the current year in the appropriate income and expense accounts. All items of profit and loss recognized during a period, including accruals of estimated loss from loss contingencies, must be included in the determination of net income for the period.

2060.3 DIVIDENDS

Dividends to shareholders should be declared and paid from current income, after providing for required transfers to the legal reserves, plus any available balances of undivided earnings. The dividends should be charged as a current year expense. Credit unions should use caution in expending undivided earnings to meet current operating expenses, particularly in the payment of above market dividends; rather credit unions should strive to build their capital positions.

2060.4 RESERVE FOR LOSS CONTINGENCIES

A reserve for contingencies may be established by any credit union for possible or unforeseen decreases in the value of assets or for other unforeseen or indeterminate liabilities not otherwise shown on the credit union's records. Any such reserve established only as a precautionary measure will represent a segregation of undivided earnings and should be so classified in financial reports. Contingency reserves should not be used as a substitute for valuation requirements for the amount of currently estimated losses on loans or other assets. When the net loss during any accounting period exceeds available undivided earnings, the reserve for loss contingencies and/or other segregations of undivided earnings should be reduced to offset such excess.

Even though a Reserve for Loss Contingencies has been established for a particular liability or expenditure, such expenditures should not be charged directly to the reserve. The loss or cost must be recorded as an operating expense.

The reserve for contingencies is established by a charge to undivided earnings. When the event has occurred, or the liability has been paid, for which the reserve for loss contingencies was appropriated, the balance of the account should be credited back to undivided earnings. Transfers from the Reserve for Loss Contingencies to Undivided Earnings must be in amounts equal to costs charged to expenses during an accounting period, thereby eliminating any reduction in Undivided Earnings which would have occurred due to the contingency taking place.

2060.5 DONATED EQUITY

When a credit union receives a gift or donation of a tangible fixed asset of material value, the offsetting credit for the recorded value of the asset should be to a special equity classification for “donated equity.” Such amounts will represent equity capital of the credit union but will not be available for dividend payments, valuation allowance or reserve requirements. Depreciation on donated fixed assets should be recorded and charged to current expenses based on the established value of the assets.

2060.6 REGULAR RESERVE

The Regular Reserve is an appropriation of the Undivided Earnings. It is established in accordance with the Federal Credit Union Act and/or the National Credit Union Administration Rules and Regulations as a Regular Reserve to provide for the financial stability of the credit union.

2060.7 SHARES AS EQUITY

Shares should be classified as equity in the credit union’s Statement of Financial Condition.

- Shares are legally defined as equity;
- Shares function as equity and represent ownership; and
- Share dividends are based on earnings and are not guaranteed, i.e., shares are at risk, insurance programs notwithstanding.

Some credit unions offer savings accounts to their members beyond that which represents an ownership interest (shares). Credit unions should properly classify such accounts as liabilities in the Statement of Financial Condition.

2070 PRINCIPLES AFFECTING THE RECORDING OF INCOME AND EXPENSES

2070.1 UNDER THE MODIFIED CASH BASIS OF ACCOUNTING

The principles and standards of accounting relating to income, expenses, gains and losses of federal credit unions following the modified cash basis of accounting are set forth below.

2070.1.1 GENERAL RULES FOR RECORDING INCOME AND EXPENSES

All income, expenses, gains and losses affecting each accounting or dividend period should be recorded through income and expense accounts. Exceptions to this principle should be made only for correction of an error affecting prior accounting period operations as described in Section 2060.2

2070.1.2 BASIS FOR RECORDING INCOME

Income should be recorded periodically as received. Fees and late charges should be recorded as income when received.

2070.1.3 BASIS FOR RECORDING EXPENSES

Expenses are the using or the consuming of goods and services in the process of producing income. Expenses relate to current operations and should be paid and recorded promptly when due; however, all bills due and payable on open accounts at the end of the month should be recorded as current month expenses and as accounts payable or accrued expenses. Significant amounts of expenses paid or accrued that are applicable to future periods should be recorded as prepaid or deferred expenses and amortized over the periods to which they are applicable.

2070.1.4 TANGIBLE FIXED ASSET EXPENSES

Depreciation of fixed assets should be recorded as expense over the useful lives of the assets under the unit or the composite basis.

2070.1.5 AMORTIZATION OF DEFERRED CHARGES

Charges should be included in expenses each month or dividend period for amortization of deferred charges; e.g., prepaid insurance, leasehold improvements, organization expenses, etc.

2070.1.6 EQUIPMENT RENTAL EXPENSE

Rental charges under equipment leases should be charged directly to expense unless they represent installment purchases of fixed assets. If a rental agreement represents an optional purchase contract which the credit union plans to exercise by purchasing the equipment, the cost of the equipment should be recorded as a fixed asset and a liability. Thereafter, payments made will reduce the liability amount, and appropriate depreciation expense should be recorded. Reference may be made to FASB Statement No. 13 for further guidance.

2070.1.7 LOAN LOSSES

Losses on loans and related assets should be recorded as described below:

- Loan losses and losses on property acquired in liquidation of loans should be charged off as they occur with the approval of the board of directors by charges to the Allowance for Loan Losses. Recoveries on loans charged off should be recorded as they occur as credits to the Allowance for Loan Losses.
- The Allowance for Loan Losses should be established and maintained to reflect the estimated amount of: (1) collection problem loans, (2) losses on assets acquired in liquidation of loans, and (3) losses on loans purchased from other credit unions. The amount of the allowance account should be adjusted monthly or at the end of the regular share dividend period, if longer than monthly. For this purpose, the amount of the adjustment should be determined based on either the "Experience Method" or the "Adjustment Method" which are described later in this manual under the discussion of the General Ledger Account No. 719-Allowance for Loan Losses.

2070.1.8 OTHER GAINS AND LOSSES

Other gains and losses normally will be included in determining periodic net earnings or losses. Nonrecurring gains or losses (those unrelated to ordinary credit union activities) should be shown separately as non-operating income (expense) on periodic income and expense statements; e.g., gain or loss from the sale of a credit union office building. Also, any loss charged off on a note or contract taken in connection with a sale of credit union office quarters should be similarly charged to other losses.

2070.1.9 CASH OVERAGE AND SHORTAGES

Cash overages and shortages arising in the processing of cash transactions should be recorded as debits or as credits to expense daily as the cash differences occur. Adjustments to the cash over and short expense account should be made whenever the reason for the cash shortage or overage is determined and the proper account should be charged or credited. Any shortage or overage in negotiable instruments should be considered as a "cash overage or shortage" and the appropriate adjustment should be made at least prior to the close of each month.

2070.1.10 DONATIONS

The Financial Accounting Standards Board (FASB) issued a Statement of Financial Accounting Standard (FAS) which will affect how many credit unions measure/disclose sponsor-donated assets and services on the financial statements. The standard is FAS 116, "*Accounting for Contributions Received and Contributions Made*" and was issued by FASB in June 1993.

NCUA is taking a regulatory accounting position with regard to the standard-viewing the donation of assets and services by a sponsor to a credit union as a reciprocal transfer (i.e., in return, sponsor gets the fringe benefit to employees of on-site financial services) and, therefore, not encompassed by the standard. Sponsor-donated assets and services as well as other reciprocal transfers of contributions whether or not sponsor-donated should continue to be accounted for as set forth in the following paragraph. While credit unions have the choice to follow FAS 116the standard, the decision to follow the standard-the standard must be consistently applied. Credit unions that seek an unqualified opinion on their financial statements may be chief among those choosing to follow FAS 116.

Under the regulatory accounting position, donations and gifts received (including donations made for the specified purpose of enabling the credit union to pay dividends) should be recorded by the credit union as non-operating income and should be shown as part of the net income for the current month. As an exception to the foregoing, if a credit union receives a gift of a tangible fixed asset of substantial value, such as a building, a computer, or a bookkeeping machine, the offsetting entry for the fair market value of the asset recorded in the fixed asset account should be to Donated Equity in order to exclude such amounts from current income and undivided earnings. Such assets donated to the credit union should be depreciated with charges to expense over their remaining useful lives.

FAS 116the standard requires that all contributions received/made be included in income/expense when received/made. Contributions include many of the "donations" credit unions receive, e.g., office space, telephone services, data processing support; and some volunteer services, e.g., some accounting/auditing services, some legal advice, etc. Under FAS 116the standard:

- Some contributions which are simultaneously received and used should be recognized as both a revenue and expense in the period received and used (e.g., sponsor-contributed utilities).
- The contribution of office space would be treated as above as long as the sponsoring entity could discontinue providing the space at any time. If the sponsoring entity provides the facility for a specified period of time (say 5 years), the promise would have to be set up as a receivable at its fair value.
- Contributed services must be recognized if the services received: (a) create or enhance non-financial assets, or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

2070.1.11 PENSION PLAN COSTS

In view of the complexity of the generally accepted accounting principles that relate to the recording of pension plan costs (reflecting the complexity of the subject matter), judgment is especially important in applying the principles of pension plan accounting. The computation of pension costs for accounting purposes requires the use of actuarial techniques and judgments. Refer to Section 6080 for information concerning pension plans and their accounting treatment.

The cost of plan termination insurance and contingent liability insurance which is required for all defined plans may be included in this expense category. The preferred treatment for these two costs along with the cost of fiduciary liability insurance is to include them in Insurance (Account No. 265).

2070.1.12 NCUA INSURANCE GUARANTY

Any guaranty provided by NCUA to a credit union to make it insurable under Title 11 of the Federal Credit Union Act, as amended, should not be recorded as income. This guaranty represents a claim by the credit union against NCUA which is payable only in the event of liquidation of the credit union and then only to the extent needed to reduce or eliminate loss claims against the Title 11 share insurance fund. Amortization of guaranties should be through charges to expense in accordance with the terms of the guaranty agreement.

2070.2 UNDER THE ACCRUAL BASIS OF ACCOUNTING

The principles and standards of accounting applicable to the modified cash basis of accounting apply under the accrual basis of accounting, except as follows:

2070.2.1 INCOME ON LOANS

Interest income earned on loans outstanding (where material) should be recorded as an asset and included in income.

2070.2.2 INCOME ON INVESTMENTS

Credit unions should:

- Record income on investments in savings and loan associations and other credit unions as income in the month or dividend period based on the actual time the investments are held for which the interest or dividend income has not been received; i.e., the amount of each quarterly or other distribution applicable to each dividend period should be accrued as Accrued Income on Investments with offsetting entry to Income from Investments.
- Record income on mutual fund and common trust investments as income for the month or dividend period based on the time the investments are owned. The initial recording each month or dividend period should be adjusted as required based on the advice of income received during the ensuing period, which will show the actual amount of interest earned for the preceding period.

- Record income earned on other investments in each month or dividend period based on the actual time the investments are held for which the interest or dividend income has not been received by recognizing the amount earned as both income and as an asset. Interest earned on the general type of government securities should be accrued in each month or dividend period based on the applicable portion of the semiannual interest. Interest on appreciation-type savings bonds should be accrued in each month or dividend period based on the pro rata amount of the bond appreciation for the period shown by the bond's table of redemption values. Interest on loans to other credit unions, certificates of deposit and deposits in other credit unions should be accrued to record the interest earned in each month or dividend period based on the actual time the investments or deposits are in effect.
- Record any differences between the amount of income accrued and actual income in the appropriate accounts when income is received.

2070.2.3 ACCRUED EXPENSES

Expenses should either be paid or accrued and matched against periodic revenues with offsetting credits where necessary to cash, payables or accrued expenses. Accruals of expenses should include, but not be limited to, charges to expense for unpaid salaries, taxes, interest on borrowed funds and dividends.

2070.2.4 ACCRUED INTEREST ON LOANS INCLUDED IN VALUATION ALLOWANCE

The valuation allowance for estimated losses on outstanding loans should include an amount to cover potential losses on accrued interest receivable from loans. Interest should not be accrued on any loans which are 3 months or more delinquent. Previously I accrued interest on such loans should be reversed by appropriate entries to the accrued interest and interest income accounts.

2080 FINANCIAL STATEMENTS

2080.1 PURPOSE

The financial statements of Federal credit unions provide the vehicle for accomplishing the most important external function of the accounting process, that of presenting fairly the financial position of the credit union at a particular date and the results of operations for a particular period in accordance with generally accepted accounting principles and the principles prescribed herein. The financial statements are needed to permit management to make sound decisions and effectively manage the credit union and to show how management has carried out its stewardship to shareholders, creditors, or others having an interest in the credit union.

2080.2 REQUIRED STATEMENTS

Two financial statements should be prepared by each credit union every month for internal use and for the information of members at each credit union location and as required by the National Credit Union Administration. These statements are:

- Statement of Financial Condition
- Statement of Income

The following statement is required of all credit unions quarterly or at the end of the regular share account dividend period if that dividend period is longer than quarterly.

- Statement of Reserves and Undivided Earnings

In addition, all credit unions following the accrual basis of accounting should provide at least annually a Statement of Cash Flows.

2080.3 STATEMENT OF FINANCIAL CONDITION

The credit union's Statement of Financial Condition (balance sheet) and notes thereto should show the financial condition of the credit union as of the date for which it was prepared. The statement should:

- Recognize the basic concepts of the principles and standards of accounting by showing, on a conservative basis, assets and liabilities including contingent losses, and appropriate classifications of credit union equity, and by identifying any significant changes in the supporting accounting practices from those used in the previous presentation.
- Provide valuation allowances as deductions from related assets to show estimated amounts of losses to be sustained in collection or realization, as well as depreciation on tangible assets.
- Identify separately unrestricted cash and restricted cash, and identify the nature and extent of any assets which have been pledged or hypothecated.
- Reflect the nature and extent to which specific liabilities are a preferred lien on assets; e.g., indicate for any mortgage on real estate the particular assets pledged as security.
- Disclose on financial statements or by notes to the financial statements the following data relating to any currently effective credit union defined benefit pension plan:
 - A description of the plan including employee groups covered, type of benefit formula, funding policy, types of assets held and significant nonbenefit liabilities, if any, and the nature and effect of significant matters affecting comparability of information for all periods presented.
 - The amount of net periodic pension cost for the period showing separately: (a) the service cost component, (b) the interest cost component, (c) the actual return on assets for the period, and (d) the net total of other components.

- A schedule reconciling the funded status of the plan with amounts reported in the employer's statement of financial position, showing separately:
 - 1) The fair value of plan assets;
 - 2) The projected benefit obligation identifying the accumulated benefit obligation and the vested benefit obligation;
 - 3) The amount of unrecognized prior service cost;
 - 4) The amount of unrecognized net gain or loss (including &-,set gains and losses not yet reflected in market-related value);
 - 5) The amount of any remaining unrecognized net obligation or net asset existing at the date of initial application of this section;
 - 6) The amount of any additional liability recognized;
 - 7) The amount of net pension asset or liability recognized in the statement of financial position which is the net result of combining the preceding six items).
- The weighted-average assumed discount rate and rate of compensation increase (if applicable) used to measure the projected benefit obligation and the weighted-average expected long-term rate of return on plan assets.
- If applicable, the amounts and types of securities of the employer and related parties included in plan assets, and the approximate amount of annual benefits of employees and retirees covered by annuity contracts issued by the employer and related parties. Also, if applicable, the alternative amortization method used pursuant to paragraphs .120 and .127, and the existence and nature of the commitment discussed in paragraph .135 [FAS87, Section 54].

2080.4 STATEMENT OF INCOME

This statement and notes thereto should reflect all income, expenses, gains and losses of the credit union for the period for which prepared. It should:

- Reflect the results of credit union operations which are to be presented in accordance with generally accepted accounting principles and the principles prescribed herein.
- Segregate income, expenses, gains and losses from regular operations from any extraordinary income, expenses or losses which occur during the period.
- Include within the regular operations, increases and decreases in the valuation allowance established for estimated losses on loans and loan assets.
- Include as income all fees and charges made to members and borrowers.

2080.5 NOTES TO FINANCIAL STATEMENTS

The objective of notes to financial statements is to provide information that cannot be sufficiently described within the body of the financial statements, Notes to financial statements are an integral part of the statements and should provide the following:

- a) A description of significant accounting policies that are being followed;
- b) An explanation of changes in methods or techniques of handling accounting transactions;
- c) An explanation of creditors' rights to specifically pledged assets;
- d) A disclosure of contingent assets and liabilities, restrictions on dividend payments, and executory contracts; and
- e) The market value of investments.

2080.5.1 DISCLOSURES ABOUT FAIR VALUES OF FINANCIAL INSTRUMENTS

Consistent with generally accepted principles, credit unions with \$150 million or more in total assets must disclose, either in the body of the financial statements or in the accompanying footnotes, the fair values of financial instruments on their statements of financial position for fiscal years ending after December 15, 1992. For all other credit unions, the disclosure will be required for fiscal years ending after December 15, 1995.

The disclosure is necessary for all financial instruments, both assets and liabilities, recognized and not recognized in the statement of financial condition, *for which it is practicable to estimate fair value*. The applicable guidance is provided in Statement of Financial Accounting Standard (FAS) No. 107 which details what constitutes a "financial instrument," procedures for estimating fair value and illustrations for applying the disclosure requirements about fair value of financial instruments. For those affected credit unions, we recommend that you obtain a copy of FAS 107 and begin preparing a financial statement footnote including your methods for establishing the fair value of the assets, liabilities and equity pursuant to FAS 107. These methods should provide the basis for your dollar estimates of the fair value. Historical records should be retained of your fair value calculations based on these methods. An overall policy documenting these methods should be maintained. If it is not practicable to estimate the fair value of a particular financial instrument, disclose in your footnote the pertinent characteristics of the instrument and the reason for impracticability of setting a fair value (e.g., it would be excessively expensive to estimate).

At the present time, federal credit unions will not be required to provide fair value information on the call reports they submit quarterly/semiannually to NCUA. Fair value information should be included on your financial statements of condition as you and your independent auditing firm agree (e.g., if you are seeking an unqualified opinion).

2080.6 STATEMENT OF MEMBERS' EQUITY

This statement and notes thereto should show changes in total earnings during the period for which prepared. It should be prepared quarterly or at the end of the regular share account dividend period (if that period is longer than quarterly) and should be presented with other financial statements by all credit unions.

2080.7 STATEMENT OF CASH FLOWS

This statement supplements the Statement of Financial Condition and the Statement of Income by providing relevant information about the cash receipts and cash payment during the covered period. The Statement of Cash Flows should be prepared at least annually by all federal credit unions which use the accrual basis of accounting. The statement may be prepared more frequently and may also be used by those federal credit unions not using the accrual basis of accounting.

The information provided in a Statement of Cash Flows, when used with the related disclosures and other financial statements, should help to assess the:

- a) Credit union's ability to generate positive future cash flows;
- b) Credit union's ability to meet its obligations, pay dividends, and to determine its need for external financing;
- c) Reasons for differences between net income and associated cash receipts and cash payments; and
- d) Effects on the credit union's position of both its cash and noncash investing and financing transactions during the covered period.

More information pertaining to the Statement of Cash Flows, and its preparation and illustrations are found in Section 3050.6 of this manual.

2080.8 FULL AND FAIR DISCLOSURE REQUIRED

The financial statements described above shall provide full and fair disclosure of all assets, liabilities, reserves and retained earnings including a limited number of valuation allowance accounts as may be necessary to present fairly the credit union's financial position; and all income and expenses necessary to present fairly the results of the credit union's operations for the period covered by the report.

2080.9 FULL AND FAIR DISCLOSURE DEFINED

"Full and fair disclosure" is the level of disclosure which a reasonable person would provide to a member of a credit union, a creditor, or the National Credit Union Administration in order to fairly inform them of the financial condition and the results of operation of the credit union. Full and fair disclosure is met by preparing financial statements consistent with this accounting manual or generally accepted accounting principles (GAAP) as long as GAAP is not inconsistent with regulatory requirements.

2080.10 CHART OF ACCOUNTS

Included in Section 4000 of this manual is a chart of accounts for use by federal credit unions. The financial reports forms described in Section 3000 of this manual are keyed to that chart of accounts. The prescribed chart of accounts and financial report forms should be used by credit unions for reporting to the National Credit Union Administration.

For purposes other than reporting to the Administration, any credit union may use a different system for numbering its General Ledger accounts. Any such alternate system adopted should permit the classification of transactions in at least the detail required to properly complete the financial report forms:

- FCU 109A, Statement of Financial Condition;
- FCU 109B, Statement of Income;
- FCU 109C, Supporting Schedules for Financial Statements;
- FCU 109D, Statement of Changes in Earnings; and
- FCU 109E, Statement of Cash Flows.

2080.11 REQUIRED CERTIFICATION

The financial statements, when presented to members, creditors or the National Credit Union Administration, should contain a declaration by the treasurer and by the president or, in the absence of the president, by any other officer designated by the board of directors of the reporting credit union to make such declaration, that the report is true and correct to the best of their knowledge and belief and presents fairly the financial position and the results of operations for the period covered.

2090 DEFINITIONS OF TERMS

Unless the context requires otherwise, the following terms should have the meaning indicated in this section:

2090.1 AMORTIZATION

The gradual extinction (write-down) of any amount over a period of time, as the periodic write-down of an insurance premium or bond premium.

2090.2 ACCRUAL BASIS OF ACCOUNTING

The accrual basis of accounting is adjusting cash flows for leads and lags which have occurred during a dividend period. Under the accrual basis of accounting, the credit union records income when earned and expenses and liabilities as they are incurred regardless of the timing of the actual receipt of payment.

2090.3 ACCRUED INTEREST

Interest earned on loans, investments, or notes or mortgages payable, which has not been received or paid by the credit union. Interest may be accrued periodically on a time period consistent with the periodic financial statements that are prepared.

2090.4 COLLATERAL

Real or personal property pledged as part or full security on a debt including completed documentation for repossession and sale of the collateral in the event of default. A co-maker also may be accepted in lieu of collateral to further secure a debt.

2090.5 COMPOSITE DEPRECIATION BASIS

The calculation of depreciation on a group of fixed assets using a rate based on the estimated average useful lives of the assets. Under this method no further depreciation should be recorded when the accumulated depreciation allowance equals the book value of the fixed assets.

2090.6 DEFERRED CHARGE OR DEFERRED EXPENSE

An expenditure not recognized as a cost of operations of the period in which incurred but carried forward to be written off in one or more future periods. Includes prepaid expenses such as insurance premiums, stationery and office supplies, etc.

2090.7 DEFERRED CREDIT

Revenue or income received or recorded before it is earned. Includes income held in suspense until offsetting charges have been determined and deducted, until a period of time has been completed (such as collection of a related doubtful receivable), or until it is fully identified.

2090.8 DONATED EQUITY

Equity in a credit union arising from contributions to the credit union of real or personal tangible property (fixed assets).

2090.9 RESERVE FOR LOSS CONTINGENCIES

An account which represents accumulated earnings set aside for possible decreases or shrinkages in the book values of assets or other indeterminate liabilities not otherwise reflected on the credit union's books. Contingency reserves are established as precautionary measures only and are included as a part of credit union's equity, as they represent segregations of undivided earnings.

2090.10 UNDIVIDED EARNINGS

Accumulated net income after distributions to shareholders and provision for reserves required by law, plus or minus decreases or increases in other reserves (reserve for loss contingencies, or special reserve for losses), plus or minus other authorized direct credits or charges for adjustments affecting prior period operations.

2090.11 VALUATION ALLOWANCE

An account established through an appropriate charge representing management's judgment as to possible loss or decline in value within a specific class of assets such as loans or tangible fixed assets.

2090.12 MODIFIED CASH BASIS OF ACCOUNTING

A modified cash basis is a mixture of the cash basis of accounting and the accrual basis of accounting. Under the modified cash basis, the accounting should be based on actual receipts and disbursements and may include provisions for:

- a) Liabilities which are not paid when due;
- b) Unpaid dividends and interest refunds applicable to the accounting period;
- c) Deferred credits and charges that are applicable to future periods;
- d) Estimated anticipated losses on loans outstanding and other risk assets; and
- e) The depreciation of fixed assets.

SECTION 3000

FINANCIAL REPORTS

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3000 FINANCIAL REPORTS

3010 PURPOSE

The purpose of financial reports is to disclose to the members a summary of the credit union's and members' transactions as of a specific date. A copy of the reports must be displayed so that the members may have a picture of the development and financial condition of their credit union, and so that potential depositors can make an informed decision on the likelihood of future dividends. Copies are to be submitted to the directors for consideration at their regular meeting. In addition, each credit union is to prepare and display a Statement of Changes in Earnings quarterly or at the end of the regular share account dividend period, if that dividend period is longer than quarterly. Also, as of the calendar year end, each credit union following the accrual basis of accounting is to prepare and display the Statement of Cash Flows.

3020 FREQUENCY OF REPORT DISTRIBUTION

<i>NAME OF REPORT</i>	<i>FREQUENCY</i>	<i>APPLICABLE TO</i>
STATEMENT OF FINANCIAL CONDITION	MONTHLY	ALL FCUs
STATEMENT OF INCOME	MONTHLY	ALL FCUs
STATEMENT OF MEMBERS' EQUITY	QUARTERLY OR AT THE END OF THE REGULAR SHARE ACCOUNT DIVIDEND PERIOD, IF THAT DIVIDEND PERIOD IS LONGER THAN QUARTERLY	ALL FCUs
STATEMENT OF CASH FLOWS	AT LEAST ANNUALLY	ALL FCUs ON AN ACCRUAL BASIS

3030 REPORTS REQUIRED BY NATIONAL CREDIT UNION ADMINISTRATION

Federal credit unions should submit reports to the National Credit Union Administration as and when the Administration may require. Notice will be sent whenever such reports are required.

The Federal Credit Union Act exempts federal credit unions from federal, state, and local income tax. The information return, Form 990, which tax-exempt organizations are required to file with the Internal Revenue Service, is prepared on a consolidated basis by the Washington office from the year-end financial statements submitted to NCUA by all operating federal credit unions. Individual federal credit unions are, therefore, not required to file this return.

3040 FORMAT OF FINANCIAL REPORTS

Standard forms have been designed to simplify the submittal of required reports and to standardize forms used by the National Credit Union Administration, the State regulatory agencies and trade associations. Federal credit unions should use these forms when preparing the Statement of Financial Condition and Statement of Income for reporting to the National Credit Union Administration. A “Supporting Schedules for Financial Statements” form is provided for use by credit unions that wish to provide a further breakdown of line items on the Statement of Financial Condition and/or the Statement of Income.

For the remaining reports, the Statement of Changes in Earnings and Statement of Cash Flows, suggested formats are also illustrated in this section. Any credit union may adopt a report form designed to satisfy its particular needs provided it accomplishes full and fair disclosure. Any alternative report format adopted should be substantially similar to the corresponding suggested standard form.

3050 DESCRIPTION OF FINANCIAL REPORTS

3050.1 STATEMENT OF FINANCIAL CONDITION

The statement (Form FCU 109A) shows the financial condition of the credit union as of a given date. The assets (property) are shown in one section and the liabilities (obligations) savings and equity (ownership) are shown in another section. The total of the assets must equal the total of the liabilities and equity.

The Statement of Financial Condition is intended to recognize the basic concepts of the accounting principles and standards by showing on a conservative basis assets, liabilities and appropriate classes of equity. The statement should include notes (on a separate attachment) to identify any material transactions of an irregular nature and/or any significant changes in accounting practices adopted since the previous presentation, together with a description of their effect on the financial condition of the credit union. In addition, the statement should identify by note or otherwise:

- All significant accounting principles;
- Restricted cash separately from unrestricted cash;
- Nature and extent that assets are pledged as collateral on borrowed funds;
- Nature and extent that specific liabilities have a preferred lien on assets;
- Contingent losses;
- Specific details relating to pension plans;
- The number and aggregate dollar amount of business loans; and
- Other significant events or activities that will provide full and fair disclosure.

Except on reports prepared as of the close of an accounting period, the amount entered on the “Net

Income (Loss)” line of the Statement of Financial Condition will be taken from the “Net Income (Loss)” line of the Statement of Income in the “Period From _____ To Date” column. A loss will be written in parentheses.

In the reports as of the close of an accounting Period, no amount will be entered on the “Net Income (Loss)” line of the Statement of Financial Condition. The amounts entered on the “Regular Reserve” and “Undivided Earnings” lines on the Statement of Financial Condition will be the balance of these respective accounts after entries have been made: (1) closing the income and expense accounts into the Net Income (Loss) account, (2) transferring the balance of the Net Income (Loss) account to Undivided Earnings, (3) transferring an amount equivalent to the net provision for losses on loans for the accounting period from the Regular Reserve to Undivided Earnings, and (4) transferring the required amount based on gross income from Undivided Earnings to the Regular Reserve. At the close of an accounting period, the Statement of Financial Condition will be prepared from the post-closing trial balance since this trial balance will reflect the closing entries made to the Regular Reserve and Undivided Earnings accounts.

In reports prepared at the close of a dividend period for which the credit union has elected not to close its accounting records, interim adjustments will be made on a work sheet basis to give effect to the entries (1) through (4) as described in the preceding paragraph. The financial reports will then be prepared in the same manner as though the books had been closed.

3050.2 STATEMENT OF INCOME

This statement (Form FCU 109B) will reflect all income, expenses, gains and losses of the credit union. It provides for segregating net interest income, other operating income and expense, and nonoperating income and expense. The provision for loss expenses will be applied to net interest income.

Three columns are provided on the form for recording income, expenses and gains or losses:

(1) current month, (2) period from _____ to date (e.g., semiannual or quarterly period to date), and (3) for year to date. All three columns will be completed unless dividends are paid annually (in which case period from _____ to date could be the same as the current month).

If the books are closed only as of December 31, the Statement of Income will reflect in the “Year-to-Date” column the income, expenses, gains and losses based upon amounts shown in the General Ledger and the Expense Ledger for the year-to-date. When the books are closed quarterly or at the end of the regular share account dividend period if that dividend period is longer than quarterly, the totals for the “Year-to-Date” column will represent the accumulated totals for the calendar year through the date the books were last closed plus the amounts of income, expenses, gains and losses in the related income and expense accounts subsequent to the date the books were last closed.

Operating expense amounts to be reported for the “Year-to-Date” column are to be reported based upon the totals of expenses for each grouping of expense accounts in the 200-300 series of accounts; e.g., a single amount will be reported as Account No. 250-“Office Occupancy Expenses” representing the total charges to Expense Accounts Nos. 251 through 256.

Income and expenses for the current “Month” and “Period From _____ to Date” columns will represent the net postings for the current month and the current period to date as shown in the income, expenses, gains and losses accounts for the period identified in the column heading. For operating expenses categories (series 200-300), however, the summary of each major group of individual expense accounts will be entered as indicated above.

3050.2.1 CLASSIFICATION OF LOANS OUTSTANDING

This portion of the Statement of Income provides for a breakdown for the number and amount of delinquent loans outstanding. This information is derived from the Schedule of Delinquent Loans (Form FCU 118) and the Statement of Financial Condition (Form FCU 109A).

3050.2.2 OTHER LOAN INFORMATION

This portion of the Statement of Income (Form FCU 109B) discloses a breakdown of the number and amount of:

- a) Loans sold and being serviced by the credit union;
- b) Real estate loans made during the current year;
- c) Loans made during the current year; and
- d) Loans made since the organization of the credit union.

In addition, it also provides for the total amount of charged-off loans, recoveries, and net loans charged off since organization.

3050.2.3 MISCELLANEOUS INFORMATION

This section of the Statement of Income (Form FCU 109B) solicits information as to the number of members of record as of the month-end, and the number of potential members.

3050.3 SUPPORTING SCHEDULES FOR FINANCIAL STATEMENTS

This form is to be used by those credit unions that wish to provide additional information as to what is included in any line item on either the Statement of Financial Condition or the Statement of Income. For example, other assets may consist of Accrued Interest on Loans (Acct. No. 781) of \$6,745 and Accrued Income on Investments (Acct. No. 782) of \$600. If this is the first breakdown, it would be labeled Schedule A on the Statement of Financial Condition (Form FCU 109A) and on the Supporting Schedules for Financial Statements (Form FCU 109C). The Reference Item Number would be 21 as indicated on the Statement of Financial Condition (Form FCU 109A). The Account Number refers to the General Ledger account number. The remaining two columns are for balances or appropriate dollar amounts.

**Figure 3-1: Statement of Financial Condition
(FCU 109a)**

STATEMENT OF FINANCIAL CONDITION AS OF December 31, 19X1									
OUR FEDERAL									
CREDIT UNION									
Internal Use Only Report Type		Acct. Code No. 100		70089A Chapter \$ or Ins. Cert. #					
ASSETS									
LOANS & CASH									
Ref.	Item	Amount		Acct. Code					
	1. a. Commercial and agricultural loans to members	1,000,000	00	701					
	b. Real Estate loans to members (first lien), original maturity over 12 years	400,000	00	703					
	c. Loan balance fully secured by shares	96,611	00	706					
	d. All other loans to members (excluding a, b, c, above)	3,400,000	00						
	e. Total loans to members (include items a, b, c, and d)	4,896,611	00	700					
	f. All other loan accounts (excluding amts. in 1a, b, c, and d)			710					
	2. Total loans (Sum of 1e, f)	4,896,611	00	700-710					
	3. (Less) Allowance for loan losses	40,120	00	719					
	4. Net loans outstanding (Sum of 1e plus 2 less 3)	4,856,491	00						
	5. Cash (Cash on hand, petty cash, checking accts., etc.)	85,389	00	730					
		Total C							
		\$							
INVESTMENTS (A + B = C)									
		Remaining Maturities							
		A. 1 yr. or less	B. More than 1 yr.						
	6. Held-to-maturity securities	43,500	00						
	7. Trading Securities			741					
	8. Available - For - Sale			742					
	9. Shares, Deposits & certif. in Corp. Centrals			743					
	10. Shares, deposits and certif. in other CUS, banks, S&Ls, & MSBs	136,500	00	744					
	11. Other Investments			746					
	12. NCUSIF Capital Deposit			752					
	13. Shares in Central Liquidity Facility (Direct or Indirect)			751					
	14. Net Investments (Sum of 6-13)								
		Total C							
		\$							
OTHER ASSETS									
	15. Land and buildings (net of depreciation)			773					
	16. Other fixed assets (net of depreciation)	95,440	00	774-779					
	17. Monetary control reserve deposits			793					
	18. All other assets	7,345	00						
	19. TOTAL ASSETS (Sum of 4, 5, 14, and 15-18)	5,224,665	00						
LIABILITIES AND EQUITY									
Remaining Maturities									
A. 1 yr. or less B. More than 1 yr.									
Ref.	Item	Amount		Acct. Code					
	20. Notes payable			810					
	21. Reverse repurchase transactions			812					
	22. Interest payable			818					
	23. Accounts payable			800					
	24. Dividends/interest on share/deposits payable	97,845	00	820					
	25. Unapplied data processing exceptions			870					
	26. All other liabilities	1,504	00						
	27. TOTAL LIABILITIES (Sum of 20-26)	108,322	00						
		Total C							
		\$							
Share Certificates									
		Remaining Maturities							
		A. 1 yr. or less	B. More than 1 yr.						
	28.a Share Certificates	1,000,000	00	908					
	b. Share draft accounts			902					
	c. Member's deposits (SCU's only)								
	d. IRA/Keogh & retirement accounts			906					
	e. Other member savings	2,796,873	00						
	f. Non-member savings			921					
	g. Total savings/shares/deposits (Sum of 31a-31f)	4,496,873	00						
		Total C							
		\$							
Regular/Statutory reserves									
	29. Regular/Statutory reserves	5,26,361	00	931					
	30. Investment valuation reserve (SCU's only)								
	31. Special reserves			932					
	32. Uninsured secondary capital			925					
	33. Other reserves			933					
	34. Accumulated unrealized gains/losses on A.F.S. Sec.			945					
	35. Undivided earnings	93,109	00	940					
	36. Net income (loss)			960					
	37. TOTAL LIABILITIES AND EQUITY (Sum of 27, 28, and 29-36)	5,224,665	00						
FAIR VALUE HELD TO MATURITY SECURITIES									
		Remaining Maturities							
		A. 1 yr. or less	B. More than 1 yr.						
	38. U.S. Government Obligations	43,500	00						
	39. Federal Agency Securities								
	40. All other investments								
* Numbers in this column refer to notes to financial statements, letters refer to supplementary schedules which are attached									

FCU 109A

Figure 3-2: Statement of Income (FCU 109B)

OUR FEDERAL		CREDIT UNION	
70089A		STATEMENT OF INCOME	
Chapter \$ or Ins. Cert. #		FOR PERIOD ENDED 12/31/11	

INTEREST INCOME		Period From 10/1/11 to Date		Year To Date 12/31/11	
Ref	Item	\$ Amount	¢	\$ Amount	¢
	42. Interest on Loans (Gross)	49,787	00	131,345	00
	43. (Less) Interest Refunded			525,383	00
	44. Income from Investments	937	00	3,206	00
	45. Total Interest Income (sum of 42 - 44 less 43)	50,724	00	134,551	00
				538,208	00

INTEREST EXPENSE		Period From 10/1/11 to Date		Year To Date 12/31/11	
Ref	Item	\$ Amount	¢	\$ Amount	¢
	46. Dividends	15,654	67	46,964	00
	47. Interest on Borrowed Money			187,857	00
	48. Total Interest Expense	15,654	67	46,964	00
	49. Net Interest Income (Item 45 less 48)	35,069	33	87,587	00
	50. Provision for Loan Losses	2,713	00	7,592	00
	51. Net Interest Income after Provisions for Losses	32,356	33	79,995	00
	(Item 49 less 50)			319,980	00

OPERATING EXPENSES		Period From 10/1/11 to Date		Year To Date 12/31/11	
Ref	Item	\$ Amount	¢	\$ Amount	¢
	52. Employee Compensation	7,964	00	23,052	00
	53. Employee Benefits			92,908	00
	54. Travel & Conference	480	00	4,731	00
	55. Association Dues			5,211	00
	56. Office Occupancy Expenses	557	00	1,988	00
	57. Office Operation Expenses	1,416	00	8,961	00
	58. Loan Servicing Expenses	836	00	1,278	00
	59. Professional & Outside	1,000	00	2,092	00
	60. Member Insurance	2,665	00	8,547	00
	61. Operating Fees (Exam)	815	00	2,437	00
	62. Misc. Operating Expense	817	00	2,223	00
	63. Total Operating Expense (Sum of 52-62)	16,550	00	55,264	00
				211,742	00

OTHER OPERATING INCOME		Period From 10/1/11 to Date		Year To Date 12/31/11	
Ref	Item	\$ Amount	¢	\$ Amount	¢
	64. Operating Income				
	65. Trading Profits and Losses				
	66. Total Other Operating Income (Sum of 64-65)				

NON-OPERATING INCOME		Period From 10/1/11 to Date		Year To Date 12/31/11	
Ref	Item	\$ Amount	¢	\$ Amount	¢
	67. Gain (Loss) on Investments				
	68. Gain (Loss) on Disposition of Assets				
	69. Other Non-Operating Income (Expense)				
	70. Total Non-Operating Gains and Losses (Sum of 67-69)				
	71. Net Income (Sum of 51, 66, and 70 less 64)	15,806	33	24,731	00

FCU 109B

CLASSIFICATION OF LOANS OUTSTANDING	
Ref	Item
72.	Degree of Delinquency
	a. Current and less than 2 months
	b. 2 to less than 6 months
	c. 6 to less than 12 months
	d. 12 months and over
	e. Total loans (Sum of 73a thru 73d must equal 1e + 2)
	2,714 4,894,602 00
	4 387 50
	1 563 30
	1 1,058 20
	2,720 4,896,611 00

MISCELLANEOUS INFORMATION	
73.	Number of member's at end of month
74.	Number of potential members
	2,044 8,176

OTHER LOAN INFORMATION	
75.	Loans sold and being serviced by credit union
76.	Real estate loans made during current year
77.	Total loans made during current year (including real estate loans)
78.	Total loans made since organization
79.	Total loans charged-off since organization
80.	Recovery of loans charged-off since organization
81.	Net loans charged-off since organization
	14 400,000 00
	637 2,370,490 00
	6,700 48,564,910 00
	58,503 00
	46,500 00
	12,003 00

We certify, to the best of our knowledge and belief, this statement and the related statements are true and correct and present fairly the financial position and the results of operations for the periods covered.

Ephraim Quimby
Certified Corrected by: (PLEASE PRINT) _____
Telephone No. 424-3205

Treasurer-Manager (Signature) _____
Date 1/1/X2

President/Authorized Officer _____
Date 1/1/X2

* Numbers in this column refer to notes to financial statements; Letters refer to supplementary schedules which are attached.

Figure 3-3: Supporting Schedules for Financial Statements (FCU 109 C)

<u>70089A</u>		SUPPORTNG SCHEDULES FOR FINANCIAL STATEMENTS		<u>December 31, 19X1</u>	
Charter # or Ins. Cert #				Date	
OUR FEDERAL _____ CREDIT UNION					

Schedule	Ref. Item No.	Account Title	Acct. No.	Balance	
A	21	Accrued Interest on Loans	701	\$ 6,745.00	
		Accrued Income on Investments	702	<u>600.00</u>	
		Total		<u>\$ 7,345.00</u>	
B	26	Accounts Payable	801	\$ 945.00	
		Accounts Payable - Undistributed	803	<u>8,028</u>	
		Total		<u>\$ 8,973.00</u>	

FCU 109C

**3050.4 INSTRUCTIONS FOR PREPARING THE STATEMENTS OF FINANCIAL
CONDITION, STATEMENT OF INCOME, AND THE SUPPORTING
SCHEDULES FOR FINANCIAL STATEMENTS**

Assets

ITEM

1-

- a. Commercial Loans and Agricultural Loans (Accounts Nos. 701.1 and 701.2).** Report the total amount of loans over \$25,000 for business, inventory, and commercial purposes, plus all loans for the purpose of farming, raising livestock, or the purchase of farm equipment or loans secured by farmland, equipment or loans secured by farmland, equipment, or crops.
- b. Real Estate Loans (Account No. 703).** Report the total amount of real estate loans to members outstanding as of the report date. Only those loans with original maturities in excess of 12 years should be reported on this line.
- c. Loan Balances Fully Secured by Shares (Account No. 706).** Report the amount of loans to members outstanding as of the report date that are completely secured by pledged shares.
- d. All Other Loans to Members.** This amount should be the residual of loans to members after commercial and agricultural loans, real estate loans, and loan balances fully secured by shares have been deducted. Include Account Nos. 701, 702, 704, 705, and 707.
- e. Total Loans to Members (Account No. 700).** Include all loans to members (including commercial loans, agricultural loans, real estate loans and loans fully secured by shares) outstanding as of the report date. Do not include loans to other credit unions which are reported in the investments section. (Sum of 1a, b, c, and e.)

2-

All Other Loan Accounts (Account Nos. 710-718). Represents all other loan accounts of the credit union such as loans purchased, in whole or in part, from other credit unions, any note or contract receivable resulting from the sale of assets and similar accounts, if any. Include Accounts 710 through 718. Do not include loans to other credit unions which are reported in the investment section.

3-

(Less) Allowance for Loan Losses (Account No. 719). This item, if applicable to your credit, represents the amount set aside by the credit union which is necessary to absorb possible losses on loans. This should not include amounts reported in items 32 through 35 as reserves.

4-

Net Loans Outstanding. This represents the value of loans outstanding net of the allowance for loan losses. Item 2 less item 3.

5-

Cash (Account Nos. 730-739). This account represents cash on hand, petty cash, checking accounts, etc.

- 6- **Held-to-Maturity Securities (Account No. 741).** Represents the amortized cost of investments that the credit union has the positive intent and ability to hold to maturity.
- 7- **Trading Securities (Account No. 742).** Represents the fair value of credit union funds that are held principally for the purpose of selling them in the near term. The amounts in 7a plus 7b must equal the amount in 7c.
- 8- **Available-for-Sale Securities (Account No. 743).** Represents the fair value of investments that the credit union has that are available for sale.
- 9- **Shares, Deposits and Certificates Invested in Corporate Central Credit Unions (Account No. 744).** Report the total amount of shares, deposits and certificates invested in Corporate Central Credit Unions as of the report date. Special share accounts established in a corporate central credit union to fund the corporate central's Central Liquidity Facility stock subscription should not be reported in the item; such accounts should be reported in item 12. The amounts reported in 8A and 8B must equal the amount in 8C.
- 10- **Shares, Deposits and Certificates in Other Credit Unions, Banks, S&Ls, and Mutual Savings Banks (Account No. 745 and 746).** Represents the amount of outstanding shares, deposits and certificates of other credit unions, banks, S&Ls and MSBs as of the report date. The amounts reported in 9A plus 9B must equal the amount in 9C.
- 11- **All Other Investments.** This amount should reflect all other investments other than those in items 6 through 10, 12, and 13. Include Account Nos. 747, 748, and 753.
- 12- **NCUA Share Insurance Capitalization Deposit (Account No. 752).** The current outstanding balance of the credit union's NCUA Share Insurance Deposit.
- 13- **Shares in Central Liquidity Facility (Account No. 751).** Represents the total amount of shares invested directly or indirectly in the Central Liquidity Facility as of the report date. Credit unions that have gained access to the Central Liquidity Facility (CLF) through a CLF Agent member should report on this line the amount of their "CLF Stock Reimbursement" (a special share account established in a corporate central to fund the corporate central's CLF stock subscription). A corporate central credit union that is a member of a CLF Agent Group should report on this line the amount it has invested in its Agent Group Representative (AGR) to reimburse the AGR for purchasing CLF stock on its behalf.
- 14- **Net Investments.** This represents the sum of items 6 through 13.
- 15- **Land and Building (Net).** Represents the amount of land and building less depreciation on building, if any. (Account 771 plus 772 less 773.)

- 16- **Other Fixed Assets.** Represents all other fixed assets of the credit union such as furniture and fixtures, leasehold improvements, less related depreciation items, if any. Include Account Nos. 774 through 779.
- 17- **Monetary Control Reserve Deposits (Account No. 793).** Represents amounts deposited by the credit union in the Federal Reserve Bank or Branch or any pass-through Financial Institution as required to comply with the Federal Reserve Board's Regulation D requirements.
- 18- **All Other Assets.** Represents all other assets of the credit union not included in the above items. Includes such items as prepaid expenses and insurance, accounts receivable, accrued income, etc. Include Account Nos. 720 through 729, 760 through 769, 780 through 789, 790 through 792, and 794 through 799.
- 19- **Total Assets.** Represents the sum of the amounts in items 4, 5, 14, and 15-18 (total columns).

LIABILITIES/SAVINGS EQUITY

- 20- **Notes Payable (Account Nos. 811 to 817).** Represents the amount of the credit union's liability for borrowed funds. The amounts reported in items 23A plus 23B must equal the amount in 23C.
- 21- **Reverse Repurchase Transactions (Account No. 813).** Report the outstanding balance of funds borrowed by the credit union from any source using its securities as collateral on the loans.
- 22- **Accrued Interest Payable (Account No. 818).** Represents the amount of interest accrued on all notes and borrowings.
- 23- **Accounts Payable (Account Nos. 808-809).** Represents all accounts payable of the credit union such as undistributed payments, undistributed payroll deductions, etc. Include Account Nos. 800-809.
- 24- **Dividends/Interest on Shares/Deposits Payable (Account No. 820).** This account should reflect the total amount of dividends/interest on shares/deposits payable that are declared for the last dividend period and not paid.
- 25- **Unapplied Data Processing Exceptions (Account No. 870).** Represents the unapplied data processing exceptions outstanding as of the report date.
- 26- **All Other Liabilities.** This represents all liability accounts not shown separately above. Include such items as taxes payable (Account No. 840), accrued expenses (Account No. 850), deferred income (Account No. 880), etc.
- 27- **Total Liabilities.** This represents the sum of items 20 through 26 (total column).

28-

- a. **Share Certificates and Time Deposits.** Represents the total amount of regular, Money Market, Jumbo and other share certificates and time deposits held by the credit union members, if any. The sum of the amounts in the two maturity categories for share certificates must equal the total.
- b. **Share Draft Accounts.** Represents the total amount outstanding of share draft accounts held by the credit union members.
- c. **Member Deposits.** Represents the amount of deposits (not shares) of members in the credit union. For use by state-chartered credit unions only.
- d. **IRA/Keogh and Retirement Accounts (Account No. 906).** This represents the amount of member funds deposited for retirement purposes under a trust or custodial agreement.
- e. **Other Member Savings.** This represents the total member savings of the credit union, excluding share draft accounts, share certificates, member deposits, and IRA/Keogh and retirement accounts.
- f. **Nonmember Savings (Account No. 921).** This represents the total amount on nonmember savings in the credit union. Primarily applicable to Limited Income Credit Unions.
- g. **Total Savings/Shares/Deposits.** Represents the sum of the amounts held in all savings/shares/deposits accounts of members and nonmembers. Includes Share Certificates, Share Draft Accounts, Public Unit Accounts, Retirement Plans and special share accounts such as Christmas and Vacation accounts, if any. The sum of the total columns of items 31a through 31f, must equal 31g.

29-

Regular/Statutory Reserve (Account No. 931). Represents the statutory (regular) reserve balance as of the report date.

30-

Investment Valuation Reserve (SCU's only). Represents the reserves to cover the excess of book value over market value for investments other than those authorized for federal credit unions by Section 107 of the Federal Credit Union Act. For use by state-chartered credit unions only.

31-

Special Reserves. This represents any other reserves required by regulation, special agreement or other of the credit union's supervisory authority.

32-

Uninsured Secondary Capital. For low-income designated credit unions only. Represents the amount of secondary capital accounts accepted from organizational or institutional investors.

- 33- **Other Reserves.** Represents the sum of other reserve accounts (excluding amounts in items 29, 30, and 31) such as reserve for contingencies appropriated undivided earnings, unrealized loss in value of long-term investments.
- 34- **Accumulated Unrealized Gain/Losses on Available-for-Sale Securities.** Represents the unrealized and unrecognized gains and losses (net) on securities that are classified as available-for-sale.
- 35- **Undivided Earnings (Account No. 940).** Represents the total amount of accumulated income or surplus of the credit union. Should not include the amount of dividends and interest on deposits paid or payable which are reported in item 24.
- 36- **Net Income (Loss).** Represents the net income (loss) from operations.
- 37- **Total Liabilities, Savings and Equity.** Represents the sum of amounts in items 27, 28g and 29 through 36.

FAIR VALUE OF HELD-TO-MATURITY SECURITIES

- 38- **U.S. Government Obligations.** Represents the fair value, as of the statement date, for the U.S. Government Obligations.
- 39- **Federal Agency Securities.** Represents the fair value, as of the statement date, for the Federal Agency securities.
- 40- **All Other Investments.** Identify any other investment reported in items 9 through 13 which have a market value below the reported amount and show the market value for the investment(s) as of the statement date.
- 41- **N/A**

OPERATING INCOME

- 42- **Interest on Loans (Gross) (Account Nos. 110-117).** Represents the total amount of income from interest on loans.
- 43- **(Less) Interest Refunded (Account No. 119).** Represents the total amount of interest refunded.
- 44- **Income From Investments (Account No. 120-129).** Represents the total amount of income earned on investments.
- 45- **Total Interest Income.** Sum of items 42 and 44, less item 43.

INTEREST EXPENSE

- 46- Dividends (Account No. 380).** Report the actual or estimated amount of dividends for the reporting period.
- 47- Interest on Borrowed Money (Account Nos. 340-342).** Represents the interest cost to the credit union for borrowed money.
- 48- Total Interest Expense.** Sum of items 46 and 47.
- 49- Net Interest Income.** This represents the gross profit of the credit union (item 45 minus item 48).
- 50- Provision for Loan Loss (Account No. 301).** Represents the current period provision for all losses and related costs on loans and other receivables.
- 51- Net Interest Income After Provisions for Losses.** This represents the gross profit after the provisions for losses (item 49 minus 50).

OPERATING EXPENSES

- 52- Employee Compensation (Account Nos. 210-219).** Represents the total amount of salaries paid to employees of the credit union, including the treasurer, if paid. Also includes reimbursement to the sponsor when credit union employees are on the sponsor company's payroll.
- 53- Employee Benefits (Account Nos. 220-224).** Represents all expenses of the credit union that relate to employee benefits. Includes such items as pension plan costs, employer's social security taxes, unemployment compensation taxes, and other benefits provided to employees.
- 54- Travel and Conference Expense (Account Nos. 230-239).** Represents the amount of authorized expenses incurred by employee and officers (including the treasurer) for travel and attendance at conferences and other meetings.
- 55- Association Dues (Account Nos. 240-249).** Represents membership dues and other fees paid to credit union organizations of which the credit union is a member.
- 56- Office Occupancy Expense (Account Nos. 250-259).** Represents all expenses relating to occupying an office including rent, utilities (except telephone), depreciation of building, if owned by the credit union, real estate taxes, and amortization of leasehold improvements.
- 57- Office Operation Expense (Account Nos. 260-269).** Represents all expenses relating to the operation of an office including communications, stationery and supplies, insurance, furniture rental and/or maintenance, depreciation, bank service charges, etc.

- 58- **Loan Servicing Expense (Account Nos. 280-289).** Represents all expenses incurred in the servicing of loans such as collection expense, credit reports, recording fees, chattel lien insurance, etc.
- 59- **Professional and Outside Services (Account Nos., 290-299).** Represents expenses incurred by the credit union for such items as legal fees, audit fees, accounting services, and management and consultant fees.
- 60- **Member Insurance (Account Nos. 310-319).** Represents the cost of members' insurance, including premiums paid for life savings insurance, annual share insurance premium and borrowers for protection insurance.
- 61- **Operating Fees (Account Nos. 320-329).** Represents the NCUA annual operating fee, state supervision fee and the cost of periodic examinations assessed by the supervisory agency, if any.
- 62- **Miscellaneous Operating Expense (Account No. 370).** Includes all miscellaneous operating expenses for which no separate expense categories are listed.
- 63- **Total Operating Expenses.** Sum of all operating expenses. Items 52 through 62.

OTHER OPERATING INCOME

- 64- **Other Operating Income.** Represents all operating income other than interest on loans, income from investments and gain or loss on trading accounts.
- 65- **Trading Profits and Losses (Account No. 170).** This represents the gains and losses on trading accounts, both from the sale of trading securities and from adjusting the trading securities to market.
- 66- **Total Other Operating Income.** The sum of items 64 and 65.

NONOPERATING INCOME

- 67- **Gain (Loss) on Investments (Account No. 420).** Report the amount of nonoperating income or expense resulting from the gain or loss on the disposition of investments. Do not include gain or loss on the disposition of trading securities.
- 68- **Gain (Loss) on Disposition of Assets (Account No. 430).** Report the amount of nonoperating income or expense resulting from the disposition of assets.
- 69- **Other Nonoperating Income (Expense) (Account No. 440).** Represents miscellaneous nonoperating income or expenses.
- 70- **Total Nonoperating Gains and Losses.** The sum of items 67, 68 and 69.

- 71- **Net Income (item 51 minus item 63, plus items 66 and 70).** Represents the net profit before required reserve transfers.

CLASSIFICATION OF LOANS OUTSTANDING

- 72- **Classification of Loans Outstanding.** This section calls for the reporting of the number and amount of delinquent loans: current and less than 2 months delinquent; 2 and less than 6 months delinquent; 6 and less than 12 months delinquent; and 12 months and over. Information on loans delinquent should be taken from a schedule of delinquent loans as of the report date.
- 73- **Number of Members at End of Month.** Enter the actual number of members on record as of the month end. Do not enter the number of accounts.
- 74- **Number of Potential Members.** Represents the number of actual members plus persons in the field of membership who have not yet joined the credit union. If the field of membership is stated in terms of the number of families, use an average of three persons per family to estimate the total potential membership.
- 75- **Loans Sold and Being Serviced by the Credit Union.** Record the number and the outstanding dollar amount of loans sold to others which the credit union continues to service.
- 76- **Real Estate Loans Made During Current Year.** Record the number and the dollar amount of real estate loans (first lien with original maturities in excess of 12 years) made during the current year.
- 77- **Total Loans Made During Current Year.** Report the total number and amount of loans made during the current year.
- 78- **Total Loans Made Since Organization.** Report the total number and amount of loans made since the organization of the credit union.
- 79- **Loans Charged Off Since Organization.** Represents the total amount of loans charged off since the credit union was organized. Loans charged off during the current period should be added to the amount reported on the previous period's form to obtain the total charged off since organization as of the report date.
- 80- **Recoveries on Loans Charged Off Since Organization.** Represents the total amount of recoveries on previously charged off loans since the organization of the credit union. Add the amount recovered during the current period to the previous period's total.
- 81- **Net Loans Charged Off Since Organization.** Represents net charge offs; item 80 less item 81.

3050.5 STATEMENT OF MEMBERS' EQUITY

This Statement (Form FCU 109D) is to be prepared and displayed as part of the regular financial reports at least quarterly or at the end of the regular share account dividend period if that dividend period is longer than quarterly. It may also be used by any credit union as part of its financial reports at any time.

The Statement shows changes in earnings during the period for which it is prepared. It will show the total increases and the total decreases in each account representing the equity (ownership) of the credit union. The report is based on an analysis of the debits and credits during the period covered in certain "Equity" General Ledger accounts (900 series of accounts).

3050.6 STATEMENT OF CASH FLOWS

As stated in Section 2080.7 of this manual, the Statement of Cash Flows must be prepared at least annually by all federal credit unions which utilize the accrual basis of accounting. It may be prepared more frequently than annually, but if prepared more frequently, an annual report should be prepared as of each fiscal year end. The statement may also be used by those federal credit unions which do not use the accrual basis of accounting.

The Form FCU 109E-Revised, see Figure 3-5, or a similar type format can be used for the Statement of Cash Flows. The statement must report the cash effects of the credit union's operating activities, investing activities, and financing activities. The statement shall explain the changes during the period in cash and cash equivalents. Figures 3-6A and 3-6B are illustrations of some of the preliminary workpapers completed prior to completing the Statement of Cash Flows. The principles applied in the preparations of, the Statement of Cash Flows, and the supporting workpapers and notes are compatible with the Statement of Financial Accounting Standards No. 95. The Statement of Cash Flows must be used by all federal credit unions which utilize the accrual basis of accounting for all fiscal periods ending after July 15, 1988.

There are basically two ways to report cash flows: (1) gross receipts and gross payments, or (2) net receipts and/or payments. For federal credit union accounting purposes, the gross receipts and gross payments method will be used except where otherwise permitted. Items which qualify for "net" reporting are cash flows stemming from all investments, loans, and debt with original maturities of 3 months or less (considered to be short term). Also qualifying for "net" reporting are share draft accounts, and any other types of share accounts for which the credit union is basically holding and disbursing cash on behalf of the member. The board of directors of each federal credit union which prepares the Statement of Cash Flows should establish policy and disclose this policy with the statement as to which of its eligible cash flow items qualify for "net" reporting. The objective is to enable preparation of the most meaningful Statement of Cash Flows.

Note 11 of the Notes to Financial Statements contains information developed from the Journal and Cash Record and other sources for some of the gross receipts and gross payments items. The Statement of Cash Flows illustration in Figure 3-5 uses the basic information illustrated for Our Federal Credit Union in Figures 3-7, 3-8, and 3-9.

3050.7 NOTES TO THE FINANCIAL STATEMENTS

The objective of notes is to provide information that cannot be sufficiently described within the body of the financial statements without detracting from the clarity of the statements. Notes are not to be used as a substitute for proper accounting entries, accounting classifications, valuations or descriptions and they should not contradict items disclosed within the financial statements. Common types of notes are:

- a) Explanations of creditors rights to specifically pledged assets;
- b) Explanations of changes in methods or techniques of handling accounting transactions;
- c) Disclosure of contingent assets and liabilities, restrictions on dividend payments, and executory contracts; and
- d) A description of accounting policies that are being followed.

Caution should be exercised when preparing notes to accompany the financial statements. Notes can be difficult to understand and read without further research and analysis. This may cause the reader to disregard them. Notes can also be overused to the extent they are ignoring the use of needed accounting entries that provide for the proper development and relationships within the financial statements themselves.

3050.7.1 ILLUSTRATION OF THE USE OF NOTES TO THE FINANCIAL STATEMENTS

Illustrations 3-7, 3-8, and 3-9, are a completed Statement of Financial Condition (Form FCU 109A) a practically completed Statement of Income (Form FCU 109B), and a Statement of Reserves and Undivided Earnings (Form FCU 109D). Immediately following these financial statements are the related notes.

Figure 3-4: Statement of Members' Equity (FCU 109D)

OUR FEDERAL		CREDIT UNION		CHARTER NO.	70089A
Statement of Members' Equity for the Period Ending December 31, 19X1.					
Balance, Beginning of Period Transfers: Required Transfer to Regular Reserve Provision for Loan Losses Other Transfers Net Transfers Accumulated Unrealized gains/losses on Available- For-Sale-Securities Net Income (Loss) Balance, End of Period	Appropriated Earnings			Unappropriated Earnings	Total
	Regular Reserve (Acct. No. 931)		Other Reserves	Undivided Earnings (Acct. No. 940)	
	Statutory	Other			
	\$ Amount ¢	\$ Amount ¢	\$ Amount ¢	\$ Amount ¢	\$ Amount ¢
	502,911.00		—	14,821.00	517,731.00
	53,821.00 (30,371.00)		—	(53,821.00) 30,371.00	— —
23,450.00		—	(23,450.00)	—	
			XXX	XXX	
			108,238.00	108,238.00	
\$526,361.00	—	—	\$99,609.00	\$625,970	

OUR FEDERAL

Credit Union

Statement of Cash Flows
For the Period 1/1/X1 to 12/31/X1
Increase or (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities:

Net Income	\$1,100,000	
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation - Land and Buildings	200,000	
Depreciation - Furniture, Equipment and Fixtures	200,000	
Provision for Loan Losses	200,000	
(Gain) Loss on Investments	200,000	
Increase in Dividends Payable	200,000	
Total Adjustments		\$2,100,000

Net Cash Provided by Operating Activities**Cash Flows from Investment Activities**

Proceeds from Sales of Investment Securities	\$23,800,000	
Purchases of Investment Securities	(21,700,000)	
Net Increase in Receivables or Loans with Maturities of less than 90 days		
Principal Collected on Loans with Maturities in Excess of 90 days	33,350,000	
Loans Made with Maturities in Excess of 90 days	(50,150,000)	
Purchases of Assets to be Leased		
Principal Payments Received on Leases		
Capital Expenditures Made		
Proceeds Received from Sales of Property, Plant or Equipment		
Other Investment Cash Flows		
NCUSIF Capitalization Deposit	(110,000)	

Net Cash Provided or Used in Investment Activities

(\$14,810,000)

Cash Flows from Financing Activities:

Net Increase in Share Draft Accounts	\$2,000,000	
Proceeds from Sale of Share Certificates	36,200,000	
Payments for Maturing Share Certificates	(31,700,000)	
Proceeds from All Other Share Account Purchases	9,300,000	
Payments Made for All Other Share Withdrawals	(3,800,000)	
Net Increase in Short-Term (90 days or less) Debt		
Proceeds from Long-Term (more than 90 days) Debt	15,000,000	
Repayment of Long-Term Debt	(14,150,000)	
Other Financing Activity		

Net Cash Provided by Financing Activities

\$12,850,000

Net Increase or Decrease in Cash and Cash Equivalents

\$140,000

Cash and Cash Equivalents at Beginning of Year

550,000

Cash and Cash Equivalent at End of Year

690,000

Disclosure of accounting policy: All loans are made with maturities of more than 90 days, or treated as such in the statement of cash flows. All investments and trading activities are treated as having original maturities in excess of 90 days. Notes payable and other borrowing activity are also considered to be long-term activities and reported as such. Share draft accounts are considered short-term and only the net increase or decrease is reported on the statement of cash flows. Share certificates and all other share accounts are treated as long-term and reported as gross receipts and gross payments on the statement of cash flows.

Figure 3-6A: Illustration of Completed Workpapers to Develop Cash Flows Statement for Investment and Financing Activities

CHARTER NO.

70089A

OUR FEDERAL

Credit Union

Working Paper to Develop Cash Flows Statement

Investment and Financing Activities for Period 1/1/X1 to 12/31/X1

ACCOUNT NO.	DESCRIPTION	BALANCES 1/1/X1	BALANCES 12/31/X1	CHANGES DURING PERIOD	CASH FLOW IN	CASH FLOW OUT
701.1	Loans					
703	Commercial	\$ 6,500,000	\$ 8,000,000	\$ 1,500,000	\$ 3,000,000	\$ 4,500,000
702	Real Estate	15, 100,000	17,200,000	2,100,000	1,750,000	3,850,000
701.3	Lines of Credit	6,400,000	11,400,000	5,000,000	3,400,000	8,400,000
701	Consumer Loans	45,200,000	53,400,000	8,200,000	25,200,000	33,400,000
701	Total Loans	\$73,200,000	\$90,000,000	\$16,800,000	\$33,350,000	\$50,150,000
719	Allowance for Loan Losses	(200,000)	(400,000)	(200,000)		
731	Cash	550,000	690,000	140,000		
740	Investments					
741	Federal Agency Securities	10,000,000	8,000,000	(2,000,000)	18,300,000	16,500,000
743.1	Common Trust & Mutual Funds	1,500,000	1,200,000	(300,000)	3,500,000	3,200,000
747	Loans to Other Credit Unions	800,000	800,000		2,000,000	2,000,000
751	Shares in NCUSIF Central Liq.	500,000	500,000			
752	NCUSIF Capital Deposit	600,000	710,000	110,000		110,000
772	Land and Building (Net)	1,500,000	1,300,000	(200,000)		
774	Furniture and Equipment	1,000,000	800,000	(200,000)		
	All Other Assets	300,000	300,000			
	Totals	\$89,750,000	\$103,900,000	\$14,150,000		
812	Notes Payable	\$ 8,150,000	\$ 8,500,000	\$ 350,000	\$12,500,000	\$12,150,000
813	Reverse Repurchases	1,000,000	1,500,000	500,000	2,500,000	2,000,000
821	Dividends Payable	800,000	1,000,000	200,000		
	All Other Liabilities	600,000	600,000			
908	Share Certificates	34,700,000	39,200,000	4,500,000	36,200,000	31,700,000
902	Share Draft Accounts	5,000,000	7,000,000	2,000,000	2,000,000	
901	All Other Share Accounts	33,500,000	39,000,000	5,500,000	9,300,000	3,800,000
931	Regular Reserve	4,920,000	5,000,000	80,000		
940	Undivided Earnings	1,080,000	2,100,000	1,020,000		
	Totals	\$89,750,000	\$103,900,000	\$14,150,000		

CHARTER NO. 70089A

Credit Union

Figure 3-6B: Illustration of Completed Worksheets to Develop Cash Flows Statement for Operating Activity (FCU 109A)

OUR FEDERAL					Credit Union	
Working Paper to Develop Cash Flows Statement Investment and Financing Activities for Period 1/1/X1 to 12/31/X1					CHARTER NO.	70089A
ACCOUNT NO.	DESCRIPTION	TOTAL OF ITEMS	CASH FLOWS	RECONCILEMENT ITEMS	COMMENTS	
101	Interest on Loans	\$8,600,000	\$8,600,000		Increase in Dividends Payable	
120	Income from Investments	1,000,000	1,000,000			
170	Other Operating Income	300,000	300,000			
	Total Operating Income	\$9,900,000	\$9,900,000			
380	Dividends to Members	\$5,500,000	\$(4,800,000)	\$200,000	Depreciation Depreciation	
340	Interest on Borrowed Money	600,000	(600,000)			
210	Employee Compensation	1,000,000	(1,000,000)			
220	Employee Benefits	400,000	(400,000)		Allowance for Loan Losses	
250	Office Occupancy Expense	400,000	(200,000)	200,000		
260	Office Operation Expense	460,000	(260,000)	200,000		
290	Professional Services	150,000	(150,000)		Loss on Sale Investments	
301	Provision for Loan Losses	200,000	(350,000)	200,000		
310	Member Insurance	350,000	(20,000)			
320	Operating Fees (NCUA)	20,000	(20,000)			
	Miscellaneous Operating Exp.	20,000	(20,000)			
	Total Operating Expenses	\$8,600,000				
420	Gain (Loss) on Investments	200,000		200,000		
	Totals	\$8,800,000	\$(7,800,000)	\$1,000,000		
	Total Income	\$9,900,000				
	Total Expenses	\$8,800,000				
	Net Income	\$1,100,000				

Figure 3-7: Illustration of Statement of Financial Condition (FCD 109A) with Notes

Internal Use Only Report Type _____

Acct. Code No. 100

70089A Chapter \$ or Ins. Cert. # _____

STATEMENT OF FINANCIAL CONDITION AS OF December 31, 19X1

OUR FEDERAL _____

CREDIT UNION _____

ASSETS				LIABILITIES AND EQUITY			
Ref.	Item	Amount	Acct. Code	Ref.	Item	Amount	Acct. Code
LOANS & CASH				LIABILITIES AND EQUITY			
1	a. Commercial and agricultural loans to members	8,000,000	701	20	Notes payable	8,500,000	810
10	b. Real Estate loans to members (first lien), original maturity over 12 years	17,200,000	703	21	Reverse repurchase .. transactions	1,500,000	812
	c. Loan balance fully secured by shares	2,400,000	706	22	Interest payable		818
	d. All other loans to members (excluding a, b, c, above)	62,400,000		23	Accounts payable		800
3,9	e. Total loans to members (include items a, b, c, and d)	90,000,000	700	24	Dividends/interest on share/deposits payable	1,000,000	820
	f. All other loan accounts (excluding amts. in 1a, b, c, and d)		710	25	Unapplied data processing exceptions		870
2	Total loans (Sum of 1e, f)	90,000,000		26	All other liabilities	600,000	
1,4	3. (Less) Allowance for loan losses	400,000	719	27	TOTAL LIABILITIES (Sum of 20-26)	11,600,000	
4	Net loans outstanding (Sum of 1e plus 2 less 3)	89,600,000					
5	Cash (Cash on hand, petty cash, checking accts., etc.)	1,400,000	730				
1,2	INVESTMENTS (A + B = C)	Total C		6	Share Certificates	Amount C	
					A. 1 yr. or less	\$	€
					Remaining Maturities B. More than 1 yr.		
6	Held-to-maturity securities	9,200,000	741	28 a	Share Certificates	28,000,000	908
7	Trading Securities		742		b. Share draft accounts	11,200,000	902
8	A.F.S. Securities		743		c. Member's deposits (SCU's only)		
9	Shares, Deposits & certif. in Corp. Centrals		744		d. IR/AV/Keogh & retirement accounts	7,000,000	906
10	Shares, deposits and certif. in other CUs, banks, S&Ls, & MSBs	800,000	745-746		e. Other member savings	39,000,000	921
11	Other Investments				f. Non-member savings	85,200,000	
12	NCUSIF Capital Deposit		752		g. Total savings/shares/deposits (Sum of 31a-31f)		
13	Shares in Central Liquidity Facility (Direct or Indirect)	500,000	751	1	29. Regular/statutory reserves	5,000,000	931
14	Net Investments (Sum of 6-13)	10,500,000			30. Investment valuation reserve (SCU's only)		
					31. Special reserves		932
					32. Uninsured secondary capital		925
					33. Other reserves		933
					34. Accumulated unrealized gains/losses on A.F.S. Sec.		945
					35. Undivided earnings	2,100,000	940
					36. Net income (loss)		960
5	OTHER ASSETS			37	TOTAL LIABILITIES AND EQUITY (Sum of 27, 28, and 29-36)	103,900,000	
15	Land and buildings (net of depreciation)	1,300,000	771-773				
16	Other fixed assets (net of depreciation)	800,000	774-779				
17	Monetary control reserve deposits		793				
18	All other assets	300,000					
19	TOTAL ASSETS (Sum of 4, 5, 14, and 15-18)	103,900,000					

FAIR VALUE HELD TO MATURITY SECURITIES

38. U.S. Government Oblig.

39. Federal Agency Securities

40. All other Investments

Amount C

\$

7,600,000

1,200,000

1,200,000

€

* Numbers in this column refer to notes to financial statements, letters refer to supplementary schedules which are attached.

FCU 109A

Figure 3-8: Illustration of a Completed Statement of Income (FCU 109B) with Notes

Internal Use Only Report Type		Acct. Code No. 100	70089A Chapter \$ or Ins. Cert. #		STATEMENT OF INCOME FOR PERIOD ENDED 12/31/x1		OUR FEDERAL		CREDIT UNION	
Refer to the Accompanying Statement of Reserves and Undivided Earnings for the Change in Undivided Earnings										
Ref.	Item	INTEREST INCOME	Month Dec. 19X1	Period From 10/01/X1 To Date	Year To Date 12/31	CLASSIFICATION OF LOANS OUTSTANDING				
			\$ Amount	\$ Amount	\$ Amount					
		42. Interest on Loans (Gross)			8,600,000	110				
		43. (Less) Interest Refunded				119				
		44. Income from Investments			1,000,000	120				
		45. Total Interest Income (sum of 42 - 44 less 43)			9,600,000					
INTEREST EXPENSE										
1		46. Dividends			5,000,000	380	MISCELLANEOUS INFORMATION			
		47. Interest on Borrowed Money			600,000	340				
		48. Total Interest Expense			5,600,000					
		49. Net Interest Income (Item 45 less 48)			4,000,000					
		50. Provision for Loan Losses			200,000	301	OTHER LOAN INFORMATION			
		51. Net Interest Income after Provisions for Losses			380,000,000					
		(Item 49 less 50)								
OPERATING EXPENSES										
8		52. Employee Compensation			1,000,000	210				
		53. Employee Benefits			400,000	220				
		54. Travel & Conference				230				
		55. Association Dues				240				
		56. Office Occupancy Expenses			400,000	250				
		57. Office Operation Expenses			460,000	260				
		58. Loan Servicing Expenses				280				
		59. Professional & Outside			150,000	290				
		60. Member Insurance			350,000	310				
		61. Operating Fees (Exam)			20,000	320				
		62. Misc. Operating Expense								
		63. Total Operating Expense			2,800,000					
		(Sum of 52-62)								
OTHER OPERATING INCOME										
		64. Operating Income			300,000					
		65. Trading Profits and Losses				170				
		66. Total Other Operating Income			300,000					
NON-OPERATING INCOME										
		67. Gain (Loss) on Investments			(200,000)	420				
		68. Gain (Loss) on Disposition of Assets				430				
		69. Other Non-Operating Income (Expense)				440				
		70. Total Non-Operating Gains and Losses (Sum of 67-69)			(200,000)					
		71. Net Income (Sum of 51 and 66 less 64 less 70)			1,100,000					

FCU 109B

We certify, to the best of our knowledge and belief, this statement and the related statements are true and correct and present fairly the financial position and the results of operations for the periods covered.

George Tighman

Certified Corrected by: (PLEASE PRINT)

535-4848

Telephone No.

Treasurer-Manager (Signature)

President/Authorized Officer

1/1/X2

Date

1/1/X2

Date

* Numbers in this column refer to notes to financial statements; Letters refer to supplementary schedules which are attached.

Figure 3-9: Illustration of a Completed Statement of Members' Equity (FCU 109D) with Notes

OUR FEDERAL		CREDIT UNION		CHARTER NO.	70089A		
Statement of Members' Equity for the Period Ending <u>December 31, 19X1.</u>							
	Appropriated Earnings			Unappropriated Earnings	Total		
	Regular Reserve (Acct. No. 931)		Other Reserves	Undivided Earnings (Acct. No. 940)			
	Statutory	Other					
		\$				Amount	¢
		\$				Amount	¢
Balance, Beginning of Period	4,920,000	—	—	1,080,000	6,000,000		
Transfers:							
Required Transfer to Regular Reserve	280,000	—	—	(280,000)	—		
Provision for Loan Losses	(200,000)	—	—	200,000	—		
Other Transfers							
Net Transfers	80,000	—	—	(80,000)	—		
Accum. Unrealized gains/losses on Available-For-Sale-Securities			xxx	1,100,000	1,100,000		
Net Income (Loss)							
Balance, End of Period	\$5,000,000	—	—	\$2,100,000	\$7,100,000		

OUR FEDERAL CREDIT UNION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 19XI

Note 1-Significant Accounting Policies

Investments. Securities held for investment are stated at cost and are adjusted for amortization of premiums and accretion of discounts. Mutual funds are carried at the lower of cost or market. The Our Federal Credit Union plans to hold all investments to maturity. Gains and losses on dispositions are computed using the specific identification method.

Loans to Members (Account No. 700). Loans are reported in the Statement of Financial Condition at their book value. Interest income is recognized over the term of the loan and is generally computed using the simple interest method.

Allowance for Loan Losses (Account No. 719). This account represents the amount set aside by the credit union to absorb possible loan losses related to loans currently outstanding. The Allowance for Loan Losses is derived from charges made to the Provision for Loan Losses (Account No. 301). The Allowance for Loan Losses represents management's evaluation of various factors influencing the collectability of individual loans and is maintained at a level adequate to absorb potential losses related to loans currently outstanding.

Regular Reserve (Account No. 931). The Our Federal Credit Union is required to maintain this statutory reserve in accordance with Section 116 of the Federal Credit Union Act. This required reserve is established by an appropriation of Undivided Earnings. These amounts are not available for the payment of dividends.

Furniture and Equipment (Account No. 774). This account represents all other fixed assets. Furniture and Equipment is stated at cost. Depreciation is computed over the estimated useful lives of the related assets using the straight-line method of depreciation.

Income Taxes. The Our Federal Credit Union is exempt from federal and state income taxes in accordance with Section 501(c) of the Internal Revenue Code and Section 122 of the Federal Credit Union Act.

Dividend Expense (Account No. 380). The dividend rate is set by the board of directors on a quarterly basis for regular share accounts and dividends are charged to the Statement of Income (FCU 109B) when declared.

Note 2-Investments

The carrying value and approximate market value of investments are as follows:

	Carrying Value	Market Value
Federal Agency Securities (Account No. 742)	\$8,000,000	\$7,600,000
Common Trust and Mutual Fund Investments (Account No. 743)	1,200,000	1,200,000
Loans to Other Credit Unions (Account No. 747)	800,000	800,000
TOTAL	\$10,000,000	\$9,600,000

Note 3-Loans to Members

The composition of loans to members is as follows:

Commercial Loans		\$8,000,000
Real Estate Loans (over 12 years)		17,200,000
Lines of Credit to Members		11,400,000
Consumer Loans:		
Automobile Loans	\$37,000,000	
Education Loans	2,000,000	
Unsecured Loans	12,000,000	
Loans fully secured by shares	2,400,000	53,400,000
Total Loans to Members		\$90,000,000

Note 4-Allowance for Loan Losses

Balance on January 1, 19X1		\$200,00
Add:		
Provision for Loan Losses Expense	\$200,000	
Recoveries on Charged-off Loans	20,000	220,000
Subtotal		\$420,000
Less:		
Charged-off Loans		20,000
Balance, December 31, 19X1		\$400,000

Note 5-Other Assets

Other assets are summarized as follows as of December 31, 19X1:

Land and Building:

Land (Account No. 771)		\$200,000
Building (Account No. 772)	\$1,300,000	
Less:		
Allowance for Depreciation of Building (Account No. 773)	200,000	1,100,000
Land and Building (net of depreciation)		<u>\$1,300,000</u>

Other Fixed Assets:

Furniture and Equipment (Account No. 774)	\$1,000,000	
Less:		
Allowance for Depreciation of Furniture and Equipment	200,000	800,000
Accrued Interest on Loans (Account No. 781)		200,000
Other Assets (Account No. 799)		<u>100,000</u>
Total Other Assets		<u><u>\$2,400,000</u></u>

Note 6-Savings Accounts

A summary of savings accounts is as follows:

			Percent of Total
Share Certificates (Account No. 908):			
Money Market Certificate Accounts	\$25,000,000		
Other Share Certificates	<u>14,200,000</u>	\$39,200,000	46.0
Share Draft Accounts (Account No. 902)		7,000,000	8.2
Other Member Savings:			
Shares-Regular (Account No. 901)		<u>39,000,000</u>	45.8
Total Savings/Shares/Deposits		<u><u>\$85,200,000</u></u>	<u><u>100.0</u></u>

Note 7 - Borrowed Funds Notes Payable (Account No. 812)

Borrowed Funds were as follows:

Promissory notes, interest at 7.5% due July 1, 19XX		\$2,000,000
Reverse repurchase agreements, 10%, secured by Federal agency securities, due December 1, 19XX		1,500,000
Other notes payable: Central Liquidity Facility, 15% due on demand	\$2,000,000	
DMR Federal Credit Union 11% Unsecured note, due March 19XX	4,500,000	6,500,000
Total Notes Payable		<u><u>\$10,000,000</u></u>

Note 8 - Pension Plan

The Our Federal Credit Union has a noncontributory defined benefit pension plan covering substantially all of its employees. Total pension expense was \$45,000 in 19X1. Annual contributions made to the plan equal amounts accrued for pension expense, including amortization of past service cost over 30 years. Accumulated plan benefit information, as estimated by consulting actuaries, and plan net assets for the plan are as follows:

Actuarial present value of accumulated plan benefits:	
Vested	\$450,000
Nonvested	100,000
Total	<u><u>\$550,000</u></u>
Net assets available for benefits	<u><u>\$345,000</u></u>

The assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 8 percent in 19X1.

Note 9 - Related Party Transactions

Loans to credit union officials were made with interest rates, terms and collateral requirements comparable to those required of other members. The aggregate amount of these loans is not significant to the financial statements. Employees of Our Company provide management and consulting services on a voluntary basis. The Our Federal Credit Union also uses the Our Company EDP facilities for processing its daily transactions and preparing its payroll. Our Company charges a nominal rate for these services. The Our Federal Credit Union does not consider the income or expense effects of these services to be material to the financial statements.

Note 10 - Commitments and Contingent Liabilities

Outstanding real estate loan commitments at December 31, 19XX. Total approximately \$1,200,000. These commitments are not reflected in the financial statements.

The credit union is a party of various miscellaneous legal actions normally associated with financial institutions, the aggregate effect of which, in management's and legal counsel's opinion, would not be material to the Our Federal Credit Union's financial condition.